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## MONTEREY, CALIFORNIA

**Analysis Of Systems Used To Budget For Homeland Security**

by

Jerry McCaffery

1 February 2004

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Prepared for: Department of Justice

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# ABSTRACT

In the fall of 2002, it was not clear how homeland security efforts would be organized and what budget process would be created. Subsequently the Department of Homeland Security was created and it moved to create and establish a PPB system similar to the system employed in DOD. This technical report examines DOD's experience with the PPB system over the last 40 years and provides lessons learned from that experience for consideration by DHS budget planners. The primary lesson is that the PPB system has always been in an evolutionary mode, with constant improvements along a generalized conceptual path. It was not created once and for all and operated as a fixed template. While it is an expensive system to operate in terms of people and time, no other system appears to solve the requirement for planning for and resourcing systems and personnel to meet the threat posed to U. S. homeland security.

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# I. Overview and Introduction

Homeland security is clearly an integral part of federal government national defense planning and budgeting. Within the DOD in 2003, leaders spoke of winning the war on terrorism as "an away game," indicating efforts in Afghanistan, Iraq, and elsewhere as their models. Nonetheless, steps have been taken to prepare for homeland defense as a home game. Key homeland security events since the September 11, 2001 terrorist attacks have brought a new recognition of a missing element in defense strategy, the internal defense of the homeland. Subsequent to much debate, the Department of Homeland Security was created and a separate homeland security appropriation has been provided. Both defense and homeland security are threat-based budgets that must predict the future to anticipate what events an enemy might consider and then fund actions to deter or defeat those actions. This takes a special kind of budget system, one not based on incremental reactions to the events of the previous year. The Department of Defense has had such a budget system in place since 1964. In this report, we examine that system and ask what lessons can be learned for homeland security budgeting from DOD's experience with its Planning-Programming-Budgeting system.

Little doubt exits that the threat to homeland security is real and of some magnitude. Says former Speaker of the House Newt Gingrich:

"The threat of large-scale death has been estimated at 80% biological, 19 and a half percent nuclear, and only about one-half of one per cent chemical. Only by examining the history of new diseases in unprepared populations can we begin to understand the horrendous threat that is emerging but still largely ignored. The flu epidemic of 1918 killed more Americans than the entire First World War. The introduction of new diseases shattered the Aztec and Inca civilizations after the arrival of the Spanish. Hawaiians may have lost up to 90% of their population to new diseases. Some North American tribes lost up to 96% of their people in specific villages. Even in populations that had historically experienced disease, the right circumstances have created shattering impacts. The plague

of 1348-49 killed up to one-third of the people in European cities it hit." (Gingrich, Testimony, 2003.)

In addition to the federal government, state and local governments are important partners in meeting these threats, yet the threat persists at a time when state and local governments are in fiscal crisis. Budget crises have strained state and local law enforcement agencies, and the Homeland Security grants were slow to reach their designated beneficiaries. In 2002, a survey by the Boston Globe found that the 10 largest police departments in Massachusetts had 424 fewer officers than they did a year ago and will lose at least 50 more by July 1 as a result of state budget cuts in local aid. The state has received its allotted $11.7 million in homeland security grants, but Gov. Milt Romney (R) and other state officials estimate their costs at almost five times that amount. In Yuma County, Ariz., home to two U.S. military bases, Sheriff Ralph E. Ogden said the most pressing need is a multimillion-dollar radio system that would allow federal, state and local officials to communicate in an emergency. "We probably have 50 police or law enforcement agencies within 60 miles of where I'm sitting right now and very few of us can talk to each other," Ogden said (Russakoff and Sanchez 2003).

The Brookings Institution (2002) said that given the nation's many unaddressed domestic security needs, the homeland security budget passed in 2002 should have been as much as $10 billion higher than the $38 Bush proposed. Brookings noted that this was a complicated process, and apparent solutions might not be as effective as thought:

"The primary focus of Washington policymakers in 2002, creation of a department of homeland security . . . will not in and of itself make Americans safer," Brookings warned. "To the contrary, the complexity of merging so many disparate agencies threatens to distract from other more urgent security efforts." Others suggest that homeland security may be underfunded for years to come (Mintz and Lee, 2003). Still it is hard to see how the creation of the Department of Homeland Security was not an important and useful first step. Naturally with the creation of the DHS in 2002, complex issues remained, including integration of 22 agencies, 180,000 people, different cultures, regionalization, and the blend of federal, state, local efforts, co-ordination with private sector (e.g.

airlines) and functional co-ordination with other federal agencies, e.g. CDC or National Parks.

It is obvious that the response to terrorist threats has taken multiple aspects, including the issuance of the National Strategy for Homeland Security that defined homeland security as a concerted national effort to accomplish three major missions: Prevent terrorist attacks within the United States, reduce America's vulnerability to terrorism and minimize the damage and recover from attacks that do occur. At the federal level, the Homeland Security Act (P.L. 107-296) structures the federal organization -- the Department of the Homeland Security (DHS) -- to implement the National Strategy through federal efforts and the marshalling of state, local and private initiatives. Other legislation, such as the USA Patriot Act, has provided new tools for law enforcement and surveillance. At other government levels and in the private sector, organizational and policy changes have stressed the new demands for security. The Federal Office of Management and Budget has asked for comments on how to improve the cost benefit analysis of regulations to homeland security. These events and others highlight how difficult it is to craft homeland security as a mission area over the long term, for several reasons.

It is also obvious that more needs to be done. Officials will need to define discrete homeland security outcomes of prevention, protection and responses in objective, quantifiable and measurable forms. Federal agencies, still struggling with setting goals and measuring results for long-standing programs, likely will struggle with this new mission area. Moreover, homeland security is a national mission and will need to reflect performance at the very lowest local level and at the very highest federal level. Other goals, such as economic security, on their face call for objectives such as the free flow of goods that bump up against border and transportation security.

Fashioning partnership programs operating within and across policy and operational communities such as border control, public health, transportation and intelligence and information sharing will be difficult. In addition, homeland security programs are

primarily intergovernmental, thus running into long-held understandings of the role of the federal and state and local governments. Not to be forgotten are the vital roles of the private sector and the international community. Still, first steps have been taken with the creation of DHS which gives the federal government an organized strategic focus on homeland security. Moreover, the funding issues involved in the routines of the budget process will allow for examination of critical priorities on a routine basis in deciding on what to fund and for routine oversight of what has been funded and what has been accomplished.

Funding for homeland security has increased and not just at the federal level... Federal budget requests have rapidly expanded since the September 11 terrorist attacks. For example, the President's FY 2004 budget request for DHS is $36.2 billion, representing a 7.4 percent increase over FY 2003 and 64 percent increase over FY 2002. A recent FY 2003 supplemental appropriation has added more billions to the total. State and local governments and the private sector have also taken on substantial homeland security costs. For example, the National Strategy used estimates indicating that states' costs for additional homeland security activities would reach $6 billion in the time from September 11 through the end of 2002. Cities had estimated costs of $2.6 billion. Private sector expenses for fighting terrorism were estimated to increase by 50 to 100 percent over the $55 billion spent annually before September 11. The U.S. Conference of Mayors recently estimated that cities spend a combined $70 million more on homeland security each week when the national threat level is orange, compared to when it is yellow.

Establishing the DHS was the largest government restructuring in the past fifty years. Twenty-two different agencies with different organizational cultures representing more than 100 separate offices have been merged into this new entity. The protection of American lives and way of life to some extent depend upon the successful integration of a number of existing government agencies with distinct and separate operating procedures. DHS will include at least 180,000 employees previously covered and managed under more than one hundred separate personal management systems. Managers at DHS have to renegotiate contracts with at least 18 labor unions, including

the 33,000 member American Federation of Government Employees, and the 12,000 members of the National Treasury Employees Union. Among the controversial elements of this reorganization, the new Secretary has the authority to design a new personnel system that is more flexible than the current federal civil service system. The DHS experiment is important to personnel management because the new federal department promises to increase managerial flexibility by reducing or eliminating employee civil service status and reducing union representation. While the major mission of the department is external, how well it handles these seemingly mundane administrative matters will have significant consequences for how effective it is at accomplishing its main mission: defending the homeland.

## II. DHS Descriptors: size and shape

In this section we describe the size and shape of the department.

## Department of Homeland Security
## Major Components

The Department of Homeland Security would be funded within the total monies requested by the President in his FY 2003 budget already before Congress. There would be future savings achieved through the elimination of redundancies inherent in the current structure.

| | $(Millions) | FTE (1) |
|---|---|---|
| **Chemical, Biological, Radiological, and Nuclear Countermeasures** | | |
| Civilian Biodefense Research Programs (HHS) | 1,993 | 150 |
| Lawrence Livermore National Laboratory (DOE) | 1,188 | 324 |
| National BW Defense Analysis Center (New) | 420 | -- |
| Plum Island Animal Disease Center (USDA) | 25 | 124 |
| | 3,626 | 598 |
| **Information Analysis and Infrastructure Protection** | | |
| Critical Infrastructure Assurance Office (Commerce) | 27 | 65 |
| Federal Computer Incident Response Center (GSA) | 11 | 23 |
| National Communications System (DoD) | 155 | 91 |
| National Infrastructure Protection Center (FBI) | 151 | 795 |
| National Infrastructure Simulation and Analysis Center (DOE) | 20 | 2 |
| | 364 | 976 |
| **Border and Transportation Security** | | |
| Immigration and Naturalization Service (DOJ) | 6,416 | 39,459 |
| Customs Service (Treasury) | 3,796 | 21,743 |
| Animal and Plant Health Inspection Service (USDA) | 1,137 | 8,620 |
| Coast Guard (DOT) | 7,274 | 43,639 |
| Federal Protective Services (GSA) | 418 | 1,408 |
| Transportation Security Agency (DOT) **(2)** | 4,800 | 41,300 |
| | 23,841 | 156,169 |
| **Emergency Preparedness and Response** | | |
| Federal Emergency Management Agency | 6,174 | 5,135 |
| Chemical, Biological, Radiological, and Nuclear Response Assets (HHS) | 2,104 | 150 |
| Domestic Emergency Support Team **(3)** | -- | -- |
| Nuclear Incident Response (DOE) | 91 | -- |
| Office of Domestic Preparedness (DOJ) **(4)** | -- | -- |
| National Domestic Preparedness Office (FBI) | 2 | 15 |
| | 8,371 | 5,300 |
| **Secret Service** (Treasury) | 1,248 | 6,111 |
| **Total, Department of Homeland Security** | 37,450 | 169,154 |

Note: Figures are from FY 2003 President's Budget Request

(1) Estimated, final FTE figures to be determined
(2) Before fee recapture of $2,346 million.
(3) Interagency group currently mobilized by the Attorney General in response to major incidents.
(4) Included in FEMA in FY 2003 President's Budget Request

The table above (Brookings, 2002a: 9) tells us the dollar and personnel size and distribution of the DHS, including:

- The largest part of the Department comes from Immigration, Customs, and Coast Guard, agencies basically charged with focusing on and protecting borders, although Coast Guard has a significant water safety image.

- DHS includes the Secret Service whose primary function is to protect the President.

- DHS has two "offensive" programs, in CBRN Countermeasures and Information Analysis. These are very small functions.

The largest program involves Border and Transportation Security. The exhibit below indicates that it alone has 46% of the budget and 69% of the personnel of the total Department. It also includes agencies that were formerly associated with five other federal departments, the largest of these coming from the Department of Transportation. This component is about split between the Coast Guard an old line agency with historic traditions and the new airport security functions of the Department of Transportation. This leaves the DHS with mixed missions, mixed traditions and corporate cultures and a mission without a corporate culture. Corporate cultures are important because they help leaders and followers understand both what is important and how it should be carried out as it pertains to the Departmental mission. It is no secret that the force multiplier in HS is cooperation between Federal and state and local law enforcement programs. Good relationships based on positive culture and a history of good relationships makes these efforts easier and more effective. For example, the Coast Guard generally has a very positive local image, thanks in part to its use of the Coast Guard Auxiliary. At the other extreme are the FBI and to a lesser extent the Secret Service, agencies with a clear federal mission, both secretive, and in the FBI's case with a rather negative image about relationships with local law enforcement. While the FBI contributes a relatively small amount to the new department ($150 million and 800 people) it is interesting to see that its major contribution for DHS is in Information Analysis and Infrastructure Protection and appears to be an information sharing function. Altogether, the DHS drew from nineteen programs in twelve federal departments and has been given a new responsibility in Biological Warfare Defense Analysis. The Departments of Transportation and

Treasury clearly gave the most budget share to DHS, losing 30% and 27% of their budget share from 2001 to 2002.[1]

According to the FY2004 budget, some $41.34 billion is proposed for homeland security spending in 2004. About $24 billion of this will fall within the purview of DHS (58.5%). The rest is scattered among fifteen major Departments. Net non-defense discretionary homeland security budget authority is estimated at $28,239 billion for FY2004. This would be the amount that will constitute the non-defense budget base for homeland security in future years. [2]

Materials presented with the budget indicate that DHS has or will take important steps to re-organize. For instance, during its first year, DHS will unify four different border inspection functions into one. It will link existing information systems into a cohesive network—reengineering the $3 billion spent annually by these agencies on information technology. It will merge 15 different compensation systems into a unified compensation system that rewards employee performance. And it will consolidate at least 19 different financial management systems into an integrated system.

In addition to these changes, DHS will create a powerful and logical regional structure. Currently, some of the major agencies being merged into DHS—the INS, the Federal Emergency Management Agency, the Customs Service, and the Coast Guard—maintain a unique regional structure and lines of authority which lead separately back to Washington. This current field structure of existing agencies spans 42 districts, 21 sectors, and 20 management centers domestically, as well as over 100 international offices in 43 countries. The redundant structure has eroded accountability, blurred lines of responsibility, and led to duplicative efforts.

DHS will have one regional structure with directors within each geographic area in charge of all operations. The regional directors will report directly to the Secretary.

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[1] (Table S-6, Summary Tables, US Budget For FY2004: 316).
[2] ( Summary Table S-5, US Budget For FY2004: p. 315).

The Coast Guard will be an exception given its distinct military mission, and will continue to report to the Commandant of the Coast Guard who will report to the Secretary. This reform will not only clarify responsibility but also provide a platform to clearly develop and broadcast the Department's vision and corporate culture. Securing US borders is a primary challenge for DHS. It is an enormous task. Ports-of-entry into the United States stretch across 7,500 miles of land border between the United States and Mexico and Canada and 95,000 miles of shoreline and navigable rivers. Each year more than 500 million persons, 130 million motor vehicles, 2.5 million railcars, and 5.7 million cargo containers must be inspected at the border. The conditions and venues where the tasks are performed vary considerably, from air and sea ports-of-entry in metropolitan New York City with dozens of employees to a two person land entry point in Montana.

**Other Near-term Challenges**

DHS encounters an enormous challenge to reorganize and integrate roughly 22 disparate agencies with nearly 180,000 employees into four mission organizations. During the next two years, the Department will focus on these near-term challenges:

1. For example, in the area of human capital, most of the 22 combining agencies have at present unique personnel systems. DHS will blend the personnel systems of the incoming 22 agencies into a unified system that is consistent, coherent, and rewards good performance. Strategic use of managerial flexibilities is essential in order to put the right person, in the right place, at the right time.

2. DHS also faces the challenge of targeting its $36.2 billion budget to efforts that meet its central mission. Budgetary flexibility is essential to enabling the Department to redirect funds from obsolete or low priority programs to homeland priorities.

3. DHS inherits agencies in various financial conditions with numerous financial systems. DHS must work to unify the 19 existing systems and ensure that the chosen system directly links performance with spending.
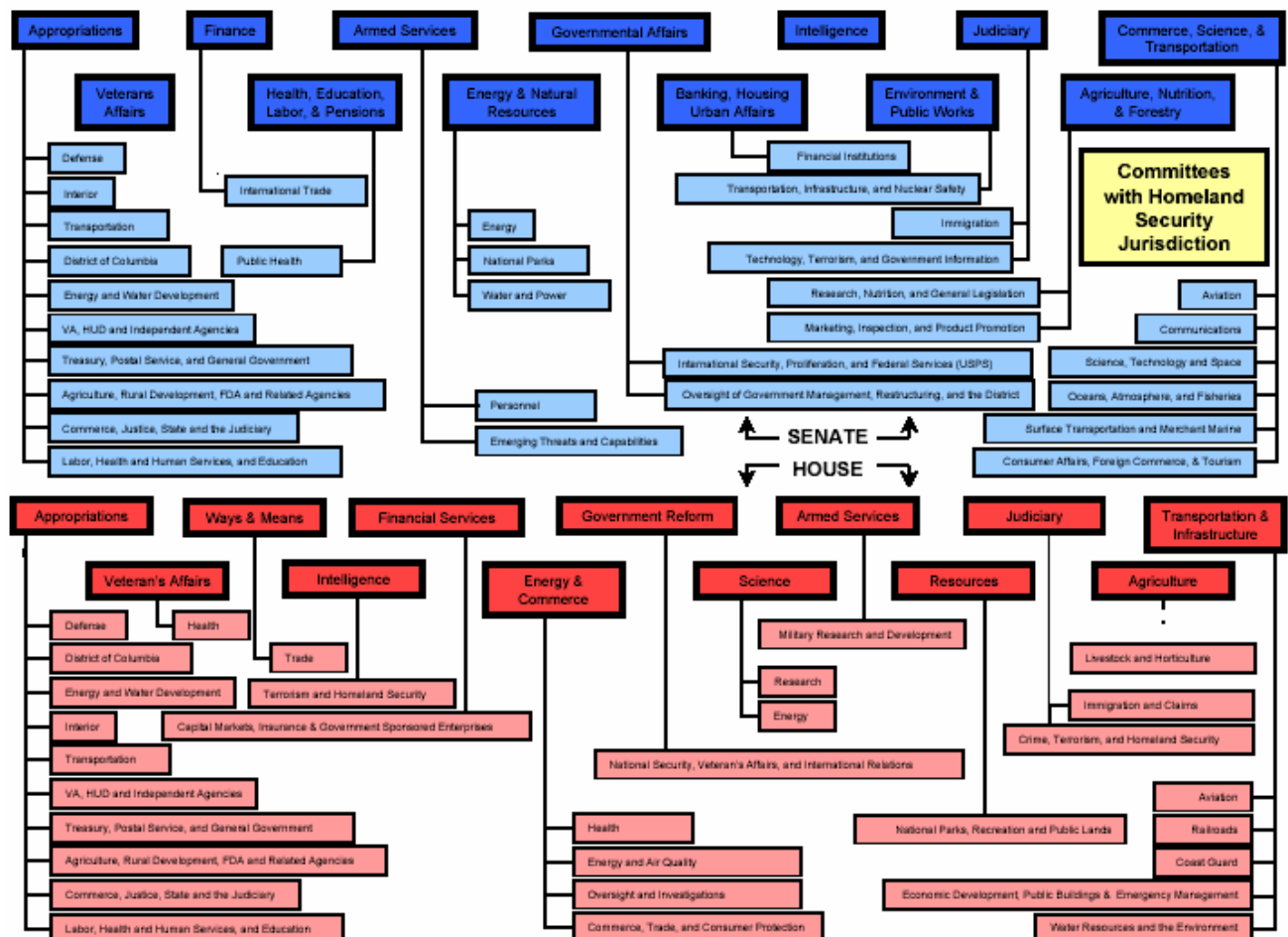
4. In addition, the Department is committed to developing concrete performance milestones upon which to hold its managers and employees accountable.

In the area of information technology, the Department is faced with the challenge of integrating hundreds of "stovepipe" systems into a coherent operating network. Communication and information sharing is essential to preventing another terrorist attack. The goal is to have modern information technology systems that efficiently and effectively support homeland security missions, enhance productivity, facilitate information sharing, and generate budgetary savings. DHS will focus on developing a solid, coherent infrastructure; developing business management cases for all of its inherited systems to determine whether they should continue operation; and evaluating mission-related systems to identify overlap and opportunities for improvement. DHS will participate in the Program Assessment Rating Tool (PART) evaluations process. These reflect a collaborative effort between the Office of Management and Budget and the various policy officials within the respective departments. Nine PART analyses were conducted for programs moved to DHS. Because DHS is a new department, it will undertake performance evaluations of its programs over the next two years (see appendix).

## III. Congressional Relationships

Not surprisingly, homeland security has a very complex historical relationship with Congress. As the exhibit below indicates, the new Department of Homeland Security must face 13 committees and 31 subcommittees in the Senate and the House with homeland security jurisdiction, for a stunning total of 62 subcommittees and 26 committees, or 88 in total. On an annual basis, the appropriations committees would appear to be the most important, since they will prepare the appropriation bill. DHS has interest in 10 appropriation subcommittee areas. Of the substantive committees, it appears that those with the most saliency to DHS will be Health, Education and Labor for public health issues; Armed Services for emerging threats; Judiciary for immigration and

technology, terrorism, and government information; and Governmental Affairs for international security. In the House, one Judiciary subcommittee is named Crime, Terrorism, and Homeland Security. The House Intelligence Committee also has a subcommittee on Terrorism and Homeland Security. The House tends to stake out is jurisdictions more narrowly and it is obvious that these committee members intend to be players in homeland security. The schematic below does not speak to the role of the Budget Committees. These committees set the total amount to be budgeted for each functional area and provide the targets for the appropriation bill. At $37 billion, the DHS is one of the larger federal departments.

Appropriations | Finance | Armed Services | Governmental Affairs | Intelligence | Judiciary | Commerce, Science, & Transportation

Veterans Affairs | Health, Education, Labor, & Pensions | Energy & Natural Resources | Banking, Housing Urban Affairs | Environment & Public Works | Agriculture, Nutrition, & Forestry

**Committees with Homeland Security Jurisdiction**

Defense
Interior
Transportation
District of Columbia
Energy and Water Development
VA, HUD and Independent Agencies
Treasury, Postal Service, and General Government
Agriculture, Rural Development, FDA and Related Agencies
Commerce, Justice, State and the Judiciary
Labor, Health and Human Services, and Education

International Trade
Public Health

Energy
National Parks
Water and Power
Personnel
Emerging Threats and Capabilities

Financial Institutions
Transportation, Infrastructure, and Nuclear Safety
Immigration
Technology, Terrorism, and Government Information
Research, Nutrition, and General Legislation
Marketing, Inspection, and Product Promotion
International Security, Proliferation, and Federal Services (USPS)
Oversight of Government Management, Restructuring, and the District

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Energy and Water Development
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Transportation
VA, HUD and Independent Agencies
Treasury, Postal Service, and General Government
Agriculture, Rural Development, FDA and Related Agencies
Commerce, Justice, State and the Judiciary
Labor, Health and Human Services, and Education

Health
Trade
Terrorism and Homeland Security
Capital Markets, Insurance & Government Sponsored Enterprises

Military Research and Development
Research
Energy
National Security, Veteran's Affairs, and International Relations

Health
Energy and Air Quality
Oversight and Investigations
Commerce, Trade, and Consumer Protection

Livestock and Horticulture
Immigration and Claims
Crime, Terrorism, and Homeland Security

Aviation
Railroads
Coast Guard
National Parks, Recreation and Public Lands
Economic Development, Public Buildings & Emergency Management
Water Resources and the Environment

In FY2004 the federal budget estimates that it will rank seventh among federal departments.[3] While it is not the largest agency, it is too big to be handled casually, thus the relationship with the budget committees will be important.

**Congress must be organized to oversee HS.**

In debate leading up to the creation and passage of homeland security legislation Brookings (2002a p. 48 et. seq.) suggested some principles for Congress to consider. First, Congress was warned that a sound congressional structure for homeland security would have three general characteristics. First, it should institutionalize the process by creating bodies within Congress that have a clear mandate to oversee homeland security.

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[3] .(Table S-7 Discretionary Budget Authority by Agency The budget for Fiscal Year 2004: 317. USGPO: Washington, D. C.)

One of the ironies of congressional oversight is that formal bodies are least necessary when a subject is in the headlines, as homeland security is today. The urgency of the problem ensures members of Congress will focus on the immediate issue. The challenge is to create institutional arrangements that will assume sustained responsibility even after the issue area slips from the front pages of the nation's newspapers. This is particularly true for terrorists who have proven that they are willing to wait years to extract revenge. Second, any congressional oversight process should minimize unnecessary fragmentation of responsibility within Congress. If oversight responsibilities are widely dispersed, Congress will find it difficult to assess trade-offs and gaps within the homeland security policy because each congressional entity will focus on its particular area of responsibility and none will be responsible for the overall program. As a result, some activities will become the subject of turf battles while others will fall through the cracks. (Of course, some fragmentation is unavoidable. The House and Senate are separate bodies. Both have dueling two-track processes in which some committees (the authorizers) are responsible for substantive policy issues and others (the appropriators) are responsible for budgetary issues, though in practice the dividing line between the two activities is blurred. And to some extent congressional fragmentation is also desirable; multiple panels lessen the chances that the executive branch will capture congressional oversight, and threats to their turf encourage committees to discharge their oversight responsibilities. But too much fragmentation does far more harm than good.) Third, the structure for overseeing homeland security should not undercut Congress's ability to oversee other parts of government. September 11 brought home the seriousness of the terrorist threat; it did not suspend government's other responsibilities. Congressional oversight of homeland security can hardly be said to be working if one consequence is that the House and Senate neglect other important government functions.

Evaluation of homeland security activity revealed that a total of 88 Congressional committees were involved with homeland security, including subcommittees-with some sort of piece of the Homeland Security jurisdiction in 2002-3. "By one estimate, at the end of the 107th Congress, the membership of those 88 committees and subcommittees

included all 100 Senators and 412 House members. (Gingrich, Sept 9, 2003). Gingrich added that the House and Senate were to be praised for establishing appropriations subcommittees for Homeland Security. (Gingrich, Sept. 9, 2003) Gingrich further recommended that the House establish a subcommittee of the Budget Committee focused on Homeland Security. "This issue is such a matter of life and death that the Budget Committee should ensure it has adequate resources for Homeland Security before considering any other budgetary matters." (Gingrich, Sept. 9, 2003). Gingrich suggested one way to go about diagnosing and reducing the reporting responsibilities for DHS would be for Congress to pass a joint resolution that lists the only committees that Secretary Ridge is required to appear before and the only committees that can require testimony in secret and the only subcommittees that can provide money. (Gingrich, Sept. 9, 2003.

The problem in Congress is not as bad as it seems at first glance. The 88 committee count may be technically accurate but it also overstates things. Most committees have very limited jurisdiction over homeland security (even then only if the term is defined broadly); bicameralism essentially doubles the number of committees; and subcommittees are less a sign of fragmentation than a rational means of breaking large jurisdictions into digestible chunks. However, the dispersal of congressional oversight of homeland security is considerable—far more than is necessary. INS, the Customs Service, the Animal and Plant Health Inspection Service, the Coast Guard, the Transportation Security Administration, and FEMA together constitute 79 percent of the budget of the department President Bush proposed and 95 percent of its employees. These agencies are now primarily overseen by four authorizing committees in the House (Agriculture, Judiciary, Transportation and Infrastructure, and Ways and Means) and five in the Senate (Agriculture, Commerce, Environment and Public Works, Finance, and Judiciary). In addition, five different appropriations subcommittees in the House and five in the Senate have a say over these same agencies. Authority is badly fragmented, coordination problems are rife, and no one is responsible for trying to bring coherence to the decisions made by individual committees (Brookings, July 2002a, p. 49).

What to do about the authorizing committee side is less clear. From Congress's perspective, revamping the appropriations subcommittees while leaving the existing authorization procedures in place has significant advantages. Brookings argues that the ideal structure would combine new appropriations committees (done) with new authorization committees (not done as of 12-03) (Brookings, July 2002a, pp 53-4)
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"The ideal structure for congressional oversight would combine new appropriations subcommittees with new authorizing committees for homeland security. Brookings argues that such a restructuring would both institutionalize the responsibility for overseeing the executive branch—increasing the chances that oversight would occur even if events shift political appeal to other topics—and reduce fragmentation—increasing the chances that Congress can identify major gaps and sensible trade-offs in homeland security.  In such a restructuring some committees would lose oversight responsibilities to the new Homeland Security committee, thus members of such committees might not welcome such a change. Brookings argues that the House Transportation and Infrastructure Committee and the Senate Commerce, Science, and Transportation Committee stand to lose the most. If President Bush's vision carries the day, they would lose oversight of the Coast Guard and TSA. The House panel would also lose oversight of FEMA. Still, it would retain jurisdiction over issues such as highways, railroads, transportation safety, inland waterways, and the merchant marine. Meanwhile, its Senate counterpart would retain jurisdiction over all these areas plus interstate commerce and science policy. Brookings notes that both committees would retain broad and substantively important jurisdictions. Nonetheless, in 2002 some leading authorizers were resisting efforts to realign jurisdictions (Nather and Foerstel, 2002, 2002a). Rep. Don Young (R Alaska), chair of the House Transportation and Infrastructure Committee, warns that legislation to reorganize the executive branch "won't sail through Congress if Congress starts tampering with the committees of jurisdiction." This sentiment seemed to be bipartisan. Rep. James L. Oberstar (D-Minn.), the ranking member of that committee, warned that "Our committee is going to fight like hell to make sure there's no new Homeland Security Committee created."

Senate Majority Leader Tom Daschle (D-S.D.) insists that as far as the Senate is concerned, "We're not going to be changing for the foreseeable future to deal with this." Nather and Foerstel felt that although the opposition to new homeland security authorizing committees was substantial, it was neither uniform nor insurmountable. They pointed to various examples, such as Sen. Joseph Lieberman (D-Conn.), who has spearheaded Senate efforts to create a homeland security department, and who argued that "It is hard to see how Congress could do a decent job of authorizing and overseeing what the new department does without a new Committee of Homeland Security…It's that big." Sen. John McCain (R-Ariz.), ranking member on the Senate Commerce, Science and Transportation Committee, said he would give up jurisdiction of the Coast Guard if it would help improve "America's security." They also found that some congressional party leaders also had indicated a willingness to rethink committee jurisdictions. Speaker of the House Dennis Hastert (R-Ill.) allowed that some reorganization may be required. Senate Minority Leader Trent Lott (R-Miss.) agrees, noting that "We're going to have to rejigger some of the oversight responsibilities."

Newt Gingrich, in testimony before the House Rules Select Subcommittee on National Security, September 9, 2003 noted:

"Congress has created new appropriations sub-committees for homeland security, but faces a more difficult issue with the authorizing committees. Instead of matching the President's decisive consolidation and rationalization, Congress continued with a total of 88 Congressional committees, including subcommittees-with some sort of piece of the Homeland Security jurisdiction puzzle as shown on this chart. By one estimate, at the end of the 107th Congress, the membership of those 88 committees and subcommittees included all 100 Senators and 412 House members.

Gingrich added:

"We know from experience that this kind of diffusion does not work. For example, the Department of Energy, which was created during the last big federal reorganization in

1977, only answers to 17 committees and is still considered "a model of how NOT to make a department."

Gingrich observed: "Much of Homeland Security is a function of dual use. First responders spend virtually all their time on policing, fire fighting and similar vital but not national security behaviors. The time and resources needed for a national security crisis in our homeland have to be layered on top of existing activities without hindering the hard work already undertaken. In a crisis, our health system will be dramatically stressed but it is already working hard every day saving lives. The offensive system of overseas preemption is already stressing some of our National Guard and Reserve units and yet Homeland Security will have to place even greater responsibility on these organizations." Gingrich praised the House and Senate for establishing the appropriations subcommittees, but went on to argue for a permanent standing committee on Homeland Security. He also urged establishment of a subcommittee of the Budget Committee focused on Homeland Security, saying, "This issue is such a matter of life and death that the Budget Committee should ensure it has adequate resources for Homeland Security before considering any other budgetary matters."

Gingrich concluded by observing that it would be absurd to say that Secretary Ridge has to report to 88 committees, "yet technically that is the present situation. So Congress should -in public- respond to the nation and explain exactly what it expects of the executive branch by organizing itself in a way so the executive branch can have an effective relationship with Congress." History gives grounds for optimism that Congress can make the organizational changes needed to grapple with the challenge of overseeing homeland security. In merging the Naval and War Committees into unified Arms Services Committees after World War II and in creating the Budget and Intelligence Committees in the mid-1970s, members overcame their innate inertia and put their policy interests above their parochial concerns. The same logic would support a comparable reorganization today.

**IV. PPB and Incrementalism**

Budgets supply the wherewithal to carry out programs. They may be prepared in various ways relying on line-item or object of expenditure format or in program or performance formats. These different techniques favor different products. A PPB system favors extended planning to respond to future situations, e.g. a threat or a plan to put a man on the moon. Observers of budgetary behavior, the actual outcome of the budget process, have made a strong case that budget outcomes tend to be incremental, that is a marginal increase over the current year's base. In this section we discuss why incremental year to year budgeting based on caseload and performance statistics is not good enough for homeland security concerns and why PPB is a better system. To do this we explain the defense PPB system and explore PPBES in its current iteration under Secretary Donald Rumsfeld. First let us deal with incrementalism, the "what is" of budgeting, rather than what should be.

Incrementalism includes a reliance on the budget base and a focus on the increment of change. The base is what was enacted last year and what may be expected to be reenacted with little difficulty. The focus of effort in this process is the increment of change. In this incremental world, the budget process remains one where agencies ask and reviewers cut and the best predictor of next year's budget is last year's (Wildavsky, 1988:13). This means that the process is stable and outcomes are fairly predictable and in the aggregate certain percentage outcomes can be anticipated. In Wildavsky's original study, more than half of the increases were within 10% of the base (Wildavsky, 1964:14) and Leloup and Moreland found an average outcome year over year of 11% for the Department of Agriculture over 25 years of observations. Precisely what number should be considered incremental has been debated with different authors calling different increases incremental (Bailey and O'Conner 1975) and research into individual agency patterns has shown great variation (Natchez and Bupp 1973); for example, LeLoup and Moreland (1978) found some agencies asked for more than a 100% increase while others asked for less than they had had the previous year.

Meyers (1994: 4) charges that incrementalism mischaracterizes present day budget strategies in almost every respect; for Meyers the budget process features actors who often make complex, rather than simple, calculations about budget decisions and roles that are unstable rather than clearly defined by institutional position(for example, reviewers do not always cut). After examining the Farmers Home Administration spending patterns, Meyers concludes that appropriations, budget authority and outlays were not good measures of how much money FmHA received or spent (Meyers, 1994: 37). For example, Meyers notes, "From the Johnson to the Carter administration, RHIF (The Rural Housing Insurance Fund) obligated increasing amounts on program activities without corresponding increases in outlays, budget authority or appropriation" (Meyers, 1994:31). Most of this was financed by borrowing from the treasury and from the public directly. Meyers argues for a brand of incrementalism based on a more sophisticated knowledge of budget structure.

Allen Schick (Coogan et al, 1994: 4) also argues for the study of micro-budgeting, emphasizing that totals must be understood in terms of the parts upon which they are built. Totals (total revenue, total spending, and the deficit or surplus) remain significant as a quick scorecard, but the real work of analysis rests in the details of the budgets. Schick suggested that deficit control would be effective only when the budget's totals were understood in terms of the parts on which they were built: managing the totals meant tracking and managing the parts (Coogan et al, 1994: 6). Meyers and Schick push the frontier of incremental decision analysis into much more complicated territory and away from simpleminded analysis of percent change in appropriations.

Incrementalism, for Wildavsky, was also a decision strategy; budget review would be parceled out and experts would review their parts, examining intensely the items of change. This allowed for focusing of time and analytic skills and avoided comprehensive calculation and conflict over major priority shifts. Here, too, research into actual procedures has indicated a more complex pattern where reviewers do examine the base (Kamlet and Mowery 1980, Gist 1977, Lauth 1987), but the concept of base and increment of change remains a powerful summarizing tool for characterization of the

budget process. To work, incremental decision making relies on feedback mechanisms to evaluate when a 'bad' decision has been made, and assumes corrective action can be taken. When entitlements take up budget space in the current year and, with the current services budget and baselines, in the future, the concept of feedback and correction is attenuated. Nevertheless, despite its flaws, no concept has replaced incrementalism as an organizing concept for understanding the budget process.

While there are legal foundations to the budget process there are also informal budget patterns that are relatively stable and may be documented over time.  For example, at the U. S. national level, agencies appeared to be advocates who ask for more and reviewers in the parent Department, OMB and Congress tend to cut those requests. The period from the end of World War II until the early 1970s is sometimes referred to as the classic period in American budgeting. There was a recognizable budget process and conflict over the budget among budget process participants was diminished by informal understandings between participants. These 'informal understandings' included a balanced budget norm, even though budgets were never balanced and usually in a small deficit position. There was agreement on the general outline of public policy. The economic climate exhibited sustained growth and this growth resulted in growing budgets and the sense that government could and should attack and solve many of society's problems. This ethos was particularly strong during the early 1960s. Thus budgetary growth became part of the political culture; budget claimants assumed that the next budget would be larger than the current budget and that the focus of budget discussion would be on the increment of change, not the absolute size of the budget, nor on a complete and thorough review of every program starting from zero.

Theorists argued that it was rational to analyze budgets in increments and not rational to attempt to do comprehensive analysis of the total budget in each cycle; they argued that aggrieved parties would announce when something was done wrong and that this could be fixed either in the next budget process or by amendments to the current budget. In the main, the budget was made by experts, and most of budgeting was done in various venues in agencies, in the parent departments, in committees and sub-committees in

Congress, all out of the public spotlight. Some observers argued that since budgets cast up decisions as just a matter of dollars, and not fundamental principals, compromise was easier to achieve and the result was generally a stable and predictable budget process.

## V. Incrementalism and GPRA

While Incrementalism may describe outcomes, it only partially describes how departments develop their budget submissions. In the federal government, departments may choose a variety of means to develop budgets for OMB and Congress, but they must play within the framework of the Government Performance and Results Act of 1992 and the Chief Financial Officer Act of 1990. In assessing the potential impact of the CFO Act and GPRA and the other laws noted, the intent is that in the future budget numbers will accurately relate to audited statements of government assets and liabilities. Better information should indicate to decision makers where to focus additional efforts to improve financial management. Better financial management also is intended to lead to more informed public policy decisions. GPRA added strategic planning to federal budgeting and with it OMB's intention to hold federal agencies accountable for developing performance measures that would show progress toward achieving these strategic plans.

This is a difficult task, and many observers felt that GPRA would just fade away as have so many other well-intentioned federal reforms (ZBB, MBO). This has not happened. In assessing the longevity of GPRA reform, OMB Controller Joshua Gotbaum noted that those who thought GPRA would simply fade away were wrong. Moreover, said Gotbaum, "…we have accomplished much. Almost a hundred Federal agencies developed strategic plans. They followed up with three sets of annual performance plans and this past spring (2000) completed the first-ever set of annual performance reports (Gotbaum 2000)." He claimed that many agencies did an excellent job of developing useful, informative FY 1999 performance reports and mentioned two in particular.

First, the Department of Transportation linked program decisions to results by linking its various air, rail and highway programs to department wide objectives such as safety, economic growth and mobility. They then tracked performance by these measures, which Gotbaum, suggested were heavily oriented toward outcomes (i.e., reduction in transportation related fatalities and injuries), rather than intermediate measures of program performance or output measures. Gotbaum suggested that DOT was clearly using strategic planning and performance management to steer programs and set priorities. And when it needed to redirect its efforts, or shift priorities, it did so, using these tools. Gotbaum also praised the Department of Education for working hard to develop measures of effectiveness and for being honest about the measures' limitations. Many Education programs involve grants that operate by funding the work of non-profits, states and local governments. While Education keeps track of the ultimate outcomes (e.g., nationwide literacy), they also recognize that these are affected by many factors beyond the particular grant program. Gotbaum noted that many federal agencies face this challenge.

In 1996, the General Accounting Office (GAO) warned that the issues associated with implementing GPRA were highly complex. First, as noted earlier, *unclear goals and missions* have hampered the targeting of program resources and caused overlap and duplication. Secondly, agencies often do not quickly and easily *shift their focus* in response to consumer demand and congressional directives because major changes in services and processes are required. Further, *outcomes are difficult to define and measure*. However, GPRA provides a mechanism for assessing agency mission and program while downsizing and increasing efficiency, at least in theory. More federal agencies are recognizing the benefits of focusing on outcomes rather than activities or outputs to improve program efficiency and effectiveness However, we may note that Australia has never attempted to measure outcomes because the task is too difficult from the perspective of the Department of Finance, and New Zealand, which initially led the charge to measure outcomes began to shift back to outputs in 2001 for the same reason.

GAO also warned that strong and *sustained congressional attention* was needed to ensure GPRA success. According to GAO, Congress needed to hold periodic, comprehensive oversight hearings and to gather information on measurement of outcomes. Congressional leadership was urged to determine how GPRA performance goals and information drive daily operations, how agencies use performance information to improve their effectiveness, to review progress in improving financial and information systems and staff training and recruitment, and to pay attention to how agencies are aligning their core business processes to support mission-related outcomes (GAO, 1996: Managing for Results).

In summary, beyond CFOA and GMRA, with the passage of GPRA, the financial management reform mandate has grown to encompass a much more ambitious set of goals. As Congressman Dick Armey put it in July, 2000:

> The Results Act we passed eight years ago recognizes that government must be held accountable. Used properly, the Results Act is a powerful tool by which agencies can measure their performance and root out the waste, fraud and abuse of taxpayers' money. …our federal government exists for the people. Federal agencies are and should be expected to spend tax dollars efficiently and to implement the laws Congress passes as they are intended-- to achieve results. [However] The most brilliant laws can fail to make America a better place when the execution is mishandled (Armey 2000).

Review of CFO and GPRA and their associated vehicles as of 2001 suggests that steady progress is being made, albeit slowly. GPRA seemed to have attained a higher level of visibility with its broad bipartisan support, its emphasis on government accountability and performance and its focus on the actual results of government actions, outcomes rather than outputs. Its insistence on the requirement that agency results be integrated into the budget process makes it rare among governmental reforms as does the fact that much of it has been carried out in a climate of downsizing, reinvention (another code word for downsizing), and privatization of government functions. Moreover, GPRA is law; unlike other reforms that were the whim of one administration or another (Carter and zero based budgeting; Nixon and management by objectives), GPRA has statutory underpinnings for its performance

measurement requirements. Moreover GPRA has been marked with the steady deployment of a more and more complex set of apparatus, with the Strategic Plans due September of 1997, Performance Plans in 1998 submitted with each budget and revised to reflect actions in the President's budget and the Performance Reports first due in March 2000 and annually thereafter. This steady cascade of key implementation measures would give the appearance that progress was being made even if it were not. Let there be no mistake, progress is being made and progress of an impressive nature. Documents posted on the Internet trace this progress. A compilation of Better Features of Annual Performance Plans for FY99 cites the following:

**Exhibit 1: Better Features of FY1999 GPRA Implementation Plans**

*Department of Agriculture*

Agricultural Research Service-Aggregate display of total funding by goal by program activity

Animal Plant Health Inspection Service-Presentation of related performance information at different levels of detail from general goal to annual workload indicators

Agricultural Research Service-Specific performance goals for research over a multi-year period.

*Agency for International Development*

Presentation of outcome goals

*Commerce*

Performance goals presented in a multi-year array; several performance indicators for each goal. Performance goals linked to strategic goals and objectives.

Table of cross-cutting programs and activities grouped by agency, and cross-walked by Department of Commerce component and activity

*Education*

Integrated presentation for an objective distinguishing between budgetary and non-budgetary strategies

*Environmental Protection Agency*

Display of resources by appropriation account for each objective; resources displayed are specific to the objective since appropriations fund more than one objective.

*Health and Human Services*

Office of Child Support- Performance goals for a state-administered program with brief description of the use and value of the measure; Description of means and strategies.

Office of Refugee Resettlement- Performance goals (including outcome goals) for a program administered by states and voluntary agencies. Description of external factors that could effect achievement of the performance goals.

*Interior*

Cascade of strategic goal, strategic objective and annual goals

*Labor*

Crosswalk of Strategic Goal Area by Congressional Committee

*National Science Foundation*

Descriptive statement of a successful program and a minimally effective program.

*Transportation*

Cascade of goals from Department-wide to component to grouping by strategic goal area.

Integration of information by goal

Prevalence of Outcome goals

Description of means and strategies

Cross-cutting strategies

*Treasury*

Tabular array containing actual performance levels for Fy95-97, planned performance levels for FY97; estimated levels for FY98; projected levels for FY99.

*Veterans Affairs*

Crosswalk by agency, illustrating scope of cross-cutting VA activities and programs.

Other features were cited, but this list of best practices illustrates the complexity of the effort to comply with GPRA as well as the progress being made.

The FY2000 plans were critiqued in a series of letters sent to the 24 major federal departments and agencies in August of 1999 by Senator Fred Thompson,

Chairman of the Senate Government Governmental Affairs Committee which has major oversight responsibilities for GPRA. These letters were based on committee staff work and GAO evaluations of each FY2000 GPRA implementation plan. In general, Thompson praised each agency for the progress it had made over the last year and identified the most important work to be done in implementing its FY2000 plan. Most agencies were characterized in the letters as having made moderate improvements from the previous year. The Department of Education is a typical example. It was praised for making moderate improvement in addressing the weaknesses of the FY1999 GPRA implementation plan. The major strengths of the FY2000 plan were cited as "(1) its performance objectives and indicators are generally objective and measurable; (2) it includes baseline or trend data for most performance indicators; (3) it discusses the role of external factors on the Department's ability to achieve its objectives; (4) it describes the limitations of its data and measures to verify the reliability of performance measures; (5) it describes specific validation and verification efforts; and (6) it shows how evaluations will be used to mitigate performance measurement shortcomings. "

GAO found that the Department of Education FY 2000 implementation plan had four key weaknesses: " (1) some performance measures do not sufficiently cover key aspects of performance; (2) it does not discuss coordination of specific programs with similar programs in other agencies; (3) it does not include separate discussions of how capital assets, mission critical management systems, or human capital will support achievement of program results; and (4) it does not indicate how some data limitations will be resolved."

Thompson concluded by saying that overall GAO had found Education's plan to be among the more useful of the 24 agencies included in the GAO evaluation and closed by commending the Secretary and his staff. In general, this was how most of the letters unrolled.

USAID was urged to develop " clearer linkage between broad development goals and specific USAID country program goals and results." USDA strengths were that it used

goals and measures that addressed program results and performance; used intermediate outputs to show progress toward intended results, and explained how proposed capital assets and management systems supported achievement of program results. However, GAO found that the Agriculture FY 2000 plan had three key weaknesses: it did not consistently include strategies for mitigating external factors; it did not adequately describe efforts to verify and validate data; and it did not consistently discuss the impact of data limitations. The Department of Commerce was criticized for the absence of complementary performance goals and measures for the many crosscutting programs and activities in which Commerce shared responsibility with other federal agencies. Thompson warned that this shortcoming was particularly serious in view of the fact that Commerce was essentially a "holding company" composed of numerous disparate missions, programs, and activities. Thompson also warned that performance goals for management problems should be included in the performance plan. Moreover, Thompson noted, Commerce's FY2000 performance plan addressed only two of the ten high risk problem areas identified in the Department by GAO and the Department's Inspector General.

Of DOD, Thompson wrote that that he continued to be concerned with the financial management problems that continued to plague the Department: "Weaknesses in DOD's financial management operations continue to hinder its ability to effectively manage its $250 billion budget and $1 trillion in assets. GAO wrote recently that "DOD's Biennial Financial Management Improvement Plan lacks critical elements necessary for producing sustainable financial management improvement over the long term. Specifically, the Plan's discussion of how DOD's financial management operations will work in the future--its concept of operations--does not address: how its financial management operations will effectively support not only financial reporting but also asset accountability and control; and budget formulation." Thompson noted that this was one of approximately 50 open GAO recommendations made to improve the credibility of DOD's financial reporting and financial statement preparation."[4] Thompson then enclosed a number of

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[4] The data from this section is taken from a series of letters from Sen. Thompson, Chairman, Senate Governmental Affairs Committee, August, 1999.

recommendations made by the Inspector General and GAO. In sum, the tone of these letters was positive and it was clear that significant improvements had been made and more could be expected. It was also clear that significant problems remained, for all agencies as they attempted to envision concrete ways to affect outcomes and particularly for those agencies with complex missions.

## VI. Criticism of GPRA

Criticism of GPRA has focused on the complexity of its mission, credibility of the data produced, and its focus.[5] GAO has pointed out that performance measures chosen by agencies do not meet Congressional needs for oversight data and that agencies have problems producing credible performance data. These two points were eminently predictable from the start of GPRA. What was perhaps not as easily foreseen was the complexity of government and the grandiosity of the GPRA intent. GAO has noted that virtually *all government results are produced by two or more agencies* and, as a consequence, mission fragmentation and overlap are widespread and cross-cutting programs are poorly coordinated, resulting in wasted dollars, customers who are confused and frustrated and the undermining of overall effectiveness. The best features list above shows the attention paid to cross-cutting goal identification, both those that exist within Departments but between or among agencies, and between and among Departments. Unfortunately identifying cross-cutting goals does not mean that problems of coordination and focus and unity of effort are solved. GAO further notes that many state goals are outside the control of Agencies, Departments and even government. For example, those agencies that would improve the economy or the environment or an ecosystem, do not really have the capability to do so. They may have some impact on those targets, but events totally

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[5] Recent GAO reports evaluating GPRA include: **Managing for Results: Barriers to Interagency Coordination**, GGD-00-106, Mar. 29, 2000 (23pages**); Managing for Results: Challenges Agencies Face in Producing Credible Performance Information**, GGD-00-52, Feb. 4, 2000 (19 pages); **Managing for Results: Views on Ensuring the Usefulness of Agency Performance Information to Congress**, GGD-00-35, Jan. 26,2000 (35 pages); **Managing for Results: Measuring Program Results that are Under Limited Federal Control**, GGD-99-16, Dec. 11, 1998 (24 pages); **Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans**, GGD/AIMD-99-215, July 20, 1999 (124 pages**) Managing for Results: Analytic Challenges in Measuring Performance**, HEHS/GGD-97-138, May 30, 1997 (44 pages)

unrelated and outside the control of the agencies may dilute, reverse or overturn their efforts. The attempt to specify outcomes - the move to some desirable end state -- may always risk setting up a goal that is not realistically attainable solely through government action. Yet to stop at output measures is inherently self-defeating. GPRA may be used as a cost-cutting measure as it encourages government to operate more efficiently, but it is inherently very optimistic in its specification of outcomes that improve government and the life of the governed. Perhaps the bottom-line is that outcomes must be plausibly seen to be impacted favorably by government action. In this sense a carefully crafted statement is far superior to an exaggerated statement of what might happen in the sense that to reduce the effect of evil is plausible when ridding the world of evil is not plausible and only calls into question the amount of resources used to pursue an unobtainable goal.

The structure of American government also poses a problem for GPRA. Very few public service provision functions are performed by the federal government alone. Even defense relies on state level components like the National Guard or cooperation from private sector contractors to produce weapons systems at acceptable prices. For agencies who pass money through to states and local governments in grants and aids or who pay non-profit corporations for health or welfare delivery services the problem of cross-cutting complexity and goal specification and attainment are equally difficulty. Block grant agencies that pass money to states have problems specifying outcomes because they can not bind states to pursuing those outcomes; states may have other items on their agenda than federal goals. Following a 1999 survey, OMBwatch said that GPRA is being taken seriously by the federal government, but that its influence over federal agencies and programs was small at that time; however "GPRA coordinators believe its influence will grow."[6]

OMBwatch suggested that GPRA's influence over non-profits may likewise grow, although the rate of growth will be slow because of the layers of state and local governments lying between federal, state, and local governments and many non-profit service delivery agencies. OMBwatch observed that the non-profit community was only dimly aware of GPRA and that federal agencies whose money ultimately went to non-profits were similarly

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unaware of non-profits. OMBwatch warned that this would be a problem for goal setting and for goal achievement, for measures that are not correctly chosen can end promoting outcomes that are undesirable. OMBwatch advocated more non-profit interest and involvement in GPRA by non-profits and a reaching out to all stakeholders by those implementing the law at the federal level, including both Congress and the executive branch agencies. In 2000, Ellen Taylor of OMBwatch observed that GPRA success still depends on government's commitment to it and that there was considerable uncertainty about whether GPRA was working.

Taylor observed that there was not a lot of public awareness of GPRA. She warned that GPRA should not be used as a partisan tool, e. g. by either the executive or Congress to attempt to score political points off the other, and concluded that performance was not the whole story. She noted that surveys had found that satisfaction with specific government services was rising measurably and nearly on a par with the private sector, but that trust in government had only slightly increased and remained low, still not rising to the level of trust obtained in surveys taken in 1988. In her testimony she urged Congress to focus on successes in government and on the way its services are improving, rather than to maintain a focus on failures (Taylor 2000). She also urged that public access to information used to develop performance measures be improved and suggested that public knowledge in itself may lead to corrective measures. As a case in point, she observed:" Although EPA never identified specific amounts of reduction in emission of toxic chemicals, the public accessibility of the Toxics Release Inventory helped create a 45% decline in the release of those chemicals." This again suggests the great optimism which underlies GPRA efforts, reminiscent of the 'If you build it, they will come,' line from the movie *Field Of Dreams*, only with GPRA the premise is '…give them the right information and they will do the right thing.' At this point the reader might want to consider theorists who perceived the world in darker hues -- Hobbes, for example - and suggest that much of government has to do with the coercion necessary to get people to do the right thing.

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[6] OMBWATCH GPRA Study. 1999

**VII. Congress and Crosscutting Program Problems.**

Cross-cutting programs pose a special problem for Congress because it is not set up to review, fund, or exercise oversight of cross-cutting programs. Chris Mihm of GAO re-enforces this point:

> Unfocused and uncoordinated crosscutting programs waste scarce resources, confuse and frustrate taxpayers and program beneficiaries, and limit overall program effectiveness. Our work in over 40 program areas across the government has repeatedly shown that mission fragmentation and program overlap are widespread, and that crosscutting federal program efforts are not well-coordinated. For example, we have reported on 50 programs for the homeless that were administered by 8 federal agencies. Housing services were provided through 23 programs operated by 4 agencies, and food and nutrition services were under 26 programs administered by 6 agencies (Mihm 2000).

Mihm argued that the government-wide performance plan and the agencies' annual performance plans and subsequent performance reports should provide Congress with information on agencies and programs addressing similar results. Once these programs have been identified, then Congress can consider the associated policy, management, and performance implications of crosscutting programs as part of its oversight over the executive branch. Mihm notes that this will present challenges to the traditional committee structures and processes and observes that Congress has no direct mechanism to use in providing a Congressional perspective to the President's government-wide performance plan or to agency goals, missions and alternatives, particularly for mission areas and programs that cut across committee jurisdictions. It seems that the logical outcome of oversight of GPRA efforts will have to change the structure of Congress, itself, an effort not lightly undertaken or easily accomplished. It is obvious that cross-cutting programs are a first order program for homeland security. Thus while it could operate in an incremental, line-item world, developing strategic plans to make the world 5% or 10% safer for democracy each year, this is not good enough. This has been recognized within DHS and the Department has turned to its own PPB system. To understand why this is important, we now turn to an appreciation of PPB as it has evolved in DOD.

**VIII. History of PPB**

Budgetary outcomes tend to be incremental irrespective of whether they are produced by object of expenditure systems, performance budgets, or PPB systems. Why bother then with what system should be used. The answer is quite simple. Systems which rely on simple measures of what was consumed and base the next year's budget on where shortages were risk going slowly astray from where they should be, by a budgetary increment each year as they focus on how well they did things in the past. In a PPB system, some future scenario drives the plan and the plan leads to the budget. The budget buys the current year of the plan. PPB always looks forward. Defense PPB looks at the threat and what needs to be done to meet the threat five to ten years in the future. Figuring out the future is hard and budgeting to meet events that might not happen is risky. The first iteration of PPB in the 1960's had the cachet systems thinking, cybernetics, information processing, and benefit cost analysis. It promised a lot, but it was a passing fad in federal civilian agencies, instituted for only a brief period in the 1960's. It did not fade away in defense however. While PPBS was discontinued for the federal government as a whole more than 30 years ago, it continued to be employed by the DOD because it meets the policy development and participatory demands of multi-service budget advocacy while also providing a long-term perspective on programs and spending. While DOD manages its internal resource management systems, this is done under the watchful eyes of Congress. Consequently, in resource planning and in budget preparation and execution, DOD continually searches for a greater delegation of authority from Congress to permit the exercise of greater managerial discretion to improve efficiency and respond to contingencies. Recent reforms in the form of a proposed Defense Transformation Act to increase such delegation were requested by DOD in 2003 before Congress, as explained in this chapter.

A number of issues related to planning and budgeting for national defense confound DOD and congressional decision makers annually. Among these are how to perform effective and competent threat assessment and the consequences of doing this job well or poorly. Another issue is how much to spend on national defense. This is determined in

large part by the perceived threat. The perception of threat also must be interpreted in the dynamics of the politics of budgeting for defense. Numerous variables affect public opinion about threat and spending. Debate and consensus building for national defense budgets is part of our democratic political tradition. Budgeting for national defense is always complicated by conflicting political opinion and information, and also the need for selective degrees of secrecy with respect to identifying and evaluating the threat and budgetary responses to it. These conditions make marketing the need for national defense spending an inevitable task and part of the obligation of defense advocates working in an open political system.

Because so much of the policy framework and budget of the Department of Defense is determined by Congress, which under the U. S. Constitution has sole power to tax and spend, analysis of resource allocation for defense cannot ignore the political context within which decisions are made and executed. Policy development and resource planning for defense is inextricably linked to constituent politics in defense budgeting. National security policy choice and implementation is made more difficult by the highly pluralistic nature of the resource allocation decision environment (Wildavsky 1988: 191-193; Adelman and Augustine, 1990). Still, disagreements over policy and resource allocation should be anticipated and, indeed, welcomed in a democracy.

Policy development, planning, and resource-allocation decision making for the U. S. Department of Defense is a task of enormous complexity due to the nature and size of the Defense Department and the highly differentiated nature of its mission and activities. The Department of Defense plans, prepares, negotiates, and makes decisions on policy, programs, and resource allocation using the Planning, Programming, and Budgeting System.

PPBS was implemented in DOD originally by Defense Secretary Robert McNamara and by Charles Hitch, Robert Anthony, and others during the administrations of Presidents Kennedy and Johnson in the 1960s (Thompson and Jones, 1994). Prior to 1962, the DOD did not have a top-down coordinated approach for planning and budgeting (Puritano, 1981; Korb, 1977; Korb, 1979; Joint DoD/GAO Working Group on PPBS, 1983). Until this time, the Secretary of Defense (SECDEF) had played a limited role in budget review

as each military service developed and defended its own budget. McNamara had used PPBS when he was the President of the Ford Motors Corporation. He and Charles Hitch, his Comptroller, had confidence that the system would be valuable for long-range resource planning and allocation in DOD. McNamara wanted PPBS to become the primary resource decision and allocation mechanism used by the DOD. McNamara implemented the system after President John F. Kennedy tasked him to establish tighter control by the Secretary of Defense, a civilian, over the military departments and services. As a former member of Congress, Kennedy was highly distrustful of the military service planning and budgeting. He ordered McNamara to take control of DOD planning and budgeting away from the military and put it in the hands of civilian leadership. Consequently, the initial motivation for establishing PPBS had as much to do with control and politics as it did with rational resource planning and budgeting. By June 30, 1964, PPB was operational within the Department of Defense (Thompson and Jones, 1994; Feltes, 1976; Korb, 1977; Korb, 1979).

Hitch implemented PPBS and systems analysis throughout DOD, but most of the program analysis was done by his "whiz kids" in the Office of the Secretary of Defense (OSD) under the Comptroller and the office of Program Analysis and Evaluation. The military departments were not anxious to implement PPBS, but had to do so eventually to play in the new planning and budgeting game run and orchestrated by Hitch and his staff. After a few years, the military departments were fully engaged in learning how to compete in the new PPBS process. However, as noted, PPBS was not just budget reform – it was a new approach to analysis and competition between alternative programs, weapons systems and, ultimately, multi-year programmatic objectives. Additional reforms beyond PPBS were to be proposed by DOD under the Johnson administration.

Charles Hitch was followed as DOD Comptroller by Robert N. Anthony, a professor of management control on loan from Harvard University's School of Business, who proposed an ambitious set of changes to DOD budgeting and accounting in 1966 in what was termed Project Prime. Among other things, Project Prime would have divided all parts of DOD into mission, revenue, expense and service centers, consistent with

management control theory according to Anthony, and required accrual accounting with reimbursable fee-for-service internal transactional payments (using negotiated or shadow prices) throughout DOD (Thompson and Jones, 1994: 66-68). What Anthony envisioned was a reimbursable accounting process similar to what was implemented in much of DOD by Comptroller Sean O'Keefe and Deputy Comptroller Donald Shycoff as part of the Defense Management Report initiatives of 1989-1992 under the Bush administration and Defense Secretary Dick Cheney (Jones and Bixler, 1992). Project Prime also included accrual accounting and budgeting for DOD. Accrual accounting is required now under the Chief Financial Officers Act of 1990, which DOD has been unable to implement successfully. Clearly, Anthony was ahead of his time in his vision of how DOD accounting and budgeting should be organized (Thompson and Jones, 1994: 67-68).

Congress did not support Anthony's proposed changes. Key members of the appropriations committees refused to allow the change to accrual accounting and rejected Project Prime, probably because they thought it would reduce their leverage to micromanage DOD through the budget. Opposition was so strong that it was suggested Anthony should be asked to resign. Anthony was not asked to do so, but chose to return to Harvard and the experiment was ended (Jones, 2001b). Not until 2003 did DOD return to Congress with such a sweeping reform proposal – the Defense Transformation Act.

The post-WWII sequence of budget reforms that led to PPBS in the 1960s started with performance budgeting in the 1950s. In essence, performance budgeting (Burkhead, 1959: chapters 6-7, and 133-181**)** attempts to connect inputs to outputs. As implemented by the President's Bureau of the Budget (BOB) under the Eisenhower administration, performance budgeting (PB) in the 1950s was characterized by indicators of cost per unit of work accomplished, focusing on workload measures rather than outputs or outcomes. The history of performance budgeting includes the Taft Commission of 1912 which recommended it be implemented and its implementation in the Department of Agriculture in 1934 and the Tennessee Valley Authority in the later 1930s, as well as having been

strongly recommended by the Hoover Commission in 1949 (McCaffery and Jones, 2001: 69).

In 1949, Congress required that the budget estimates of the Department of Defense be presented in performance categories. Performance budgeting was an executive branch managerial budget tool. During the 1950s under the leadership of Bureau of the Budget Director Maurice Stans and others, executive budgeting was transformed somewhat radically through the institution of performance measures into budgets. Many of the measures had already been in use for decades as proxies that facilitated and simplified negotiations between the Executive and Congress. However, in this first wave of performance budgeting (the second wave would hit in the 1990s) great effort was exerted to develop measures of performance and relate these to appropriations and spending. In fact, many of the measures developed in this era did not measure performance. Instead, because it was easier (and perhaps the only approach possible), workload and input cost data were used in place of real measures of performance. Still, budgeting in this era moved far from the simple line-item formats of the past. Formulae and ratios between proposed spending and actions were integrated into the Executive budget along with explanations of what the measures demonstrated and how they related to justifications for additional resources. (McCaffery and Jones, 2001: 69)

The emphasis of budget reform shifted in the early 1960s to what was termed "program budgeting." Program budgeting (Mosher, 1954; Novick, 1969) was and is a variation of or evolution from performance budgeting in which information is collected by program categories, without much of the detail of the performance-budget construction. These categories of spending are tied to specific objectives to be achieved. Activities are grouped by department, agency, and then by mission objective and sometimes by function and projected for a five-year period. Program budgeting was experimented with in the Department of Agriculture in the early 1960s as reported by Wildavsky and Hammond (Wildavsky and Hammond, 1965) and later adopted throughout the entire federal government through Executive Order by President Lyndon Johnson in 1966.

The Programming, Planning, Budgeting System (Lee and Johnson, 1983: chapter five; Hinricks and Taylor, 1969; Merewitz and Sosnick, 1972; Schick, 1966; Schick, 1973; McCaffery and Jones, 2001: 70) was intended to be a thorough analysis and planning system that incorporated multiple sets of plans and programs. Under Secretary of Defense Robert McNamara and DOD Comptroller Charles Hitch, PPBS drew upon methods from various disciplines, including economics, systems analysis, strategic planning, cybernetics, and public administration to array and analyze alternative means and goals by program and then derive benefit/cost ratios intended to indicate which means and ends to choose. Budgeting under this system was to become a simple matter of costing out the goal chosen.

In theory, the program budgets that resulted from PPBS were supposed to provide the Executive and Congress information on what the federal government was spending for particular categories, e.g., health, education, public safety, etc. across all departments and agencies. Program budgets may best be understood as matricies with program categories on one axis and departments on the other. Thus, in the fully articulated program budget Congress could determine how much was spent on health or education in total in all departments and agencies and this would promote deliberation over whether this was enough, too much or too little.

President Lyndon Johnson thought that PPBS was so successful in DOD that in 1966 he issued an executive order to have it implemented throughout the federal government. Regrettably, although Executive branch departments prepared their program budgets and related spending to objectives, Congress largely ignored what it was presented, preferring to stick with the traditional appropriations framework for analysis and enactment of the budget. (Schick, 1973) Why was this the case? Perhaps program budgets presented too much information to be used and understood by Congress. Alternatively, and as likely, perhaps Congress perceived that program budgeting would reduce the power of members of appropriations committees because the budget in this format would be determined too much by formula, thus decreasing the political spending discretion of Congress (Jones and Bixler, 1992). Although the government-wide experiment with PPBS was suspended

by President Richard Nixon in 1969, this was done more for political than efficiency reasons. However, PPBS was perceived in much of the Executive branch and Congress as paper-heavy and consuming too much staff time for preparation and analysis (Schick, 1973). Still, the system continued to be used in the Department of Defense, in part because DOD purchases substantial long-lived capital assets and since PPB requires long-range planning as its first component, it suited the needs of the Defense Department.

Thus, despite criticism that PPBS was a failure in the federal government, the process remained in use by the DOD and has been modified incrementally so as to operate effectively despite some evident flaws (Wildavsky 1988: 186-202; Puritano, 1981, McCaffery and Jones, 2001). While the manner in which PPBS operates has varied under different Presidents and Secretaries of Defense, the basic characteristics of the system have remained in place for more than 40 years. During this period, three significant reform initiatives have influenced the PPB system: the Laird reforms, the Goldwater-Nichols Act, and the Rumsfeld transformation in 2001-2003.

**Laird Reforms**

In 1969, Melvin Laird was appointed Secretary of Defense by President-elect Richard Nixon to succeed McNamara. Laird brought a different management orientation to the Defense Department, one more in keeping with its historical predilections, emphasizing decentralization and military service primacy. If McNamara increased scientific decision making in the Pentagon, he also installed a centralized management approach. Systems analysis, top-down planning, and benefit/cost analysis supported this centralized focus. One of the key bureaucratic players was the Office of Policy Analysis, which made use of the tools cited above to help McNamara centralize decisions in the Office of Secretary of Defense (Thompson and Jones, 1994: 68-73). Laird's methods ran counter to this approach, emphasizing participatory management and decentralization of power. Beginning in 1969, Laird shifted decision making power away from the DOD staff agencies to the Military Department Secretaries, because there were, "…many decisions that should be made by the Services Secretaries and they should have the responsibility for running their own programs. I have no business being involved in how many 20mm

guns should go on a destroyer. That is the Secretary of the Navy's business. I must let the Services take a greater role." (Feltes, 1976) Laird also pursued a process of participatory management, in which he hoped to gain the cooperation of the military leadership in reducing the defense budget and the size of the forces.

During Laird's four-year tenure, U. S. troop strength in Vietnam fell from 549,500 persons in 1969 to 69,000 in May of 1972 (Laird, 2003). Laird was preoccupied with disengaging from Vietnam, but not to the exclusion of other issues, such as burden-sharing costs with other nations, maintaining technological superiority (e.g., B-1 bomber, Trident submarine), improved procurement, enhanced operational readiness, and strategic sufficiency and limitations on the nuclear build-up (Feltes, 1976; Armed Forces Management. 1969). He ended the selective service draft in January of 1973 and was persistent in his efforts to secure the release of American POWs.

Laird spent a lot of time preparing for and testifying in Congress and improved DOD relations with Congress. On the management side, Laird gave the military department secretaries and the JCS a more influential role in the development of budgets and force levels, but he also returned to the use of service program and budget ceilings (fixed shares) and required services to program within these ceilings. This concept of ceilings or "top-line" endured for most of the next 40 years and still influences DOD budget requests today, as services are expected to balance their program and budget against the total obligational authority they are given at various stages in the planning and budget process.

Laird sought to provide a better balance between military and civilian judgment in the defense decision-making process by providing better and earlier strategic and fiscal guidance to the services and the Joint Chiefs of Staff. Feltes suggests that the result of Laird's emphasis on decentralized management was that responsibility for military planning was shifted back to the military services, and the role of OSD Systems Analysis was de-emphasized. While no abrupt shifts were made, the Laird era was marked by a steady and persistent shift away from McNamara's emphasis on centralization of DOD

decision making under the Secretary of Defense (Feltes, 1976; Armed Forces Management. 1969).

**The Goldwater-Nichols Act of 1986**

It may be argued that the creation of the defense department in 1947-49 never really took hold in that, by and large, the military departments continued to go their separate ways within the envelope of the Department of Defense until the reforms of the 1960s and, to some extent, until implementation of the Goldwater-Nichols Act of 1986 (Thompson and Jones, 1994: 78-79, 246). In the 1950s, Presidents Truman and Eisenhower both fought arguably losing battles to strengthen the role of Chairman of the Joint Chiefs of Staff and the JCS (Thompson and Jones, 1994: 51-53).

By 1981, the sitting JCS Chairman, USMC Gen. David Jones was writing that the system was broken and asking Congress to fix it (Jones, D. 1982). The fact that Gen. Jones as CJCS was voicing such criticisms was in itself very significant (Chiarelli, 1993:71). In 1981, Jones (1982) suggested that because of the decentralized and fragmented resource allocation process driven by parochial service loyalties, there was always more program than budget to buy it; that the focus was always on service programs; that changes were always marginal when perhaps better analysis would have led to more sweeping changes; that it was impossible to focus on critical cross-service needs; and the result was that an amalgamation of service needs prevailed at the Joint Chiefs of Staff level.

General Jones argued that staff to the Chairman of the JCS was so small that the Chairman could focus only on a few issues. The result was that the defense budget was driven by the desires of the services (usually for more programs and money), rather than by a well-integrated JCS plan. In addition, he argued that all of this undercut the authority of not only the JCS but the entire unified command structure established in the Defense Reorganization Act of 1958 (Thompson and Jones, 1994: 51-53). General Jones noted this was particularly evident in acquisition, where weapons systems met performance goals 70% of the time, but schedules 15% of the time, and cost goals 10% of the time. Jones explained:

The lack of discipline in the budget system prevents making the very tough choices of what to do and what not to do. Instead, strong constituencies in the Pentagon, Congress, and industry support individual programs, while the need for overall defense effectiveness and efficiency is not adequately addressed." (Jones, 1996: 27).

In 1986 Congress passed a sweeping reform plan, commonly referred to as the Goldwater-Nichols Act (for its congressional sponsors), over the ardent objections of many in the Pentagon, including Secretary of Defense Caspar Weinberger (Locher, 1996: 10; Locher, 2002) who thought it would break apart the DOD management system. The legislation is too complex to detail here, but among other things it strengthened the hand of the Chairman of the Joint Chiefs of Staff as chief military advisor and spokesman to the Secretary of Defense and to the President, provided the CJCS with a larger staff and identified important phases in the PPBS process where the JCS would play in setting requirements and reviewing the plans of other players. It established the national command authority to run from the President to the Secretary of Defense to the unified commanders in chief (CINCs). This increased their formal authority so that rather than using whatever forces the military services would allow them to use in their geographical area, the unified CINCs had war fighting and command responsibilities and the military service roles were to provide them with the wherewithal to do so (Thompson and Jones, 1994: 51-53, 79, 223-224). This distinction clearly put the military services in the role of training people and providing personnel and equipment for the warfighting missions of the geographically based unified command CINC's. Goldwater-Nichols also created the position of Vice-Chairman of the Joint Chiefs of Staff. Generally, the officers who have served in this spot have been strong innovators and, through various committee structures, have had a substantial impact on the resource planning process within DOD.

Goldwater-Nichols also emphasized the requirement for joint command officer duty assignment. Before Goldwater-Nichols, JCS and joint command assignments were viewed as almost career-ending assignments, thus many of the best officers tried to avoid

them. CJCS Jones observed that people serving joint tours did less well in the promotion process than those who had not served such tours (Jones, 1996: 28). While implementing it has been an evolutionary process, Goldwater-Nichols has changed this perspective – such assignments now may be career enhancing. The Act also required all officers to pass certain levels of joint proficiency and upwardly mobile officers now believe a joint tour is a must.

Most importantly, Goldwater-Nichols changed the caliber of advice given to the President and Secretary of Defense by the JCS. Former CJCS Army General Shalikashvili praised this part of the Act, "...we have broken free from the 'lowest common denominator' recommendation that so often plagued us in the past." (Roberts, 1996: 1) Shalikashvili indicated there was still room for smoothing the role of the JCS in the planning and budgeting cycles, in the national military planning process, and in management of officers into joint billets. Nonetheless, it is clear that Goldwater-Nichols is a success, as Secretary of Defense Perry noted in 1995, "It dramatically changed the way that America's forces operate by streamlining the command process and empowering the Chairman and the unified commanders. These changes paid off in....Desert Storm, in Haiti, and today in Bosnia."(Locher, 1996:15)

On the resource allocation side, Goldwater-Nichols provides two classes of organizations, those who do the warfighting, under the unified command CINCS, and those who support them, the military departments and services and their own CINCs. The military department secretaries hold most of the DOD budget authority, while the service CINCs play key roles in programming, with less leverage in budgeting. Most of the combatant commands, the unified CINCS, do not have their own budgets (except for their staffs). Rather, they use the personnel and weaponry provided them by the military departments and services. However, the military CINCs must pass their budget requests through the unified command CINCs before they move upward in the budget chain of command to the Pentagon. Prior to the mid-1990s this review by the unified command staffs used to be *pro forma* but it has become a real review in many unified commands, e.g., CINCPAC review of CINCPACFLT budget proposals. The Special Operations Forces command,

headquartered at McDill Air Force base in Florida, has its own sizable (and increasing) budget, but SOF budgets still are small compared to the military department budgets.

The unified CINCs also have an opportunity to identify requirements in the PPBES process and the Chairman of the Joint Chiefs of Staff has the responsibility to advise the Secretary of Defense to certify the merit of these requirements as well as how well the budgets of the military departments satisfy the unified CINC needs. The JCS Chairman also can submit alternative recommendations to SECDEF to meet unified CINC needs in the budget. In this matter, SECDEF is the final arbiter of what the military departments get in their budgets. The unified and service CINCs both have opportunities to give input to the Chairman of the Joint Chiefs in the PPBES planning process for development of the National Military Strategy, and in the final draft of the defense guidance which leads to the POM process. In the POM process, the service CINCs make inputs by providing their Integrated Priority Lists (IPLs) that indicate their top war fighting needs (important information for the JCS and unified CINCs). Military service CINCs may indicate program deficiencies that exist and make recommendations to fix deficiencies to both the JCS and the military service chiefs. The IPLs are a part of the programming and budgeting process and are duly considered in several venues in OSD and the military departments. More detail on this is provided subsequently in this chapter.

An unresolved tension is evident here as the unified and service CINCs both have been criticized as sometimes tending to focus on short-term operational needs, war fighting issues, and the O&M accounts that support readiness. Simultaneously, the military departments have to keep an eye not only on the short-term and immediate items and issues, but also weapons procurement and recapitalization issues, such as modernizing the aircraft or fleet inventory. Some players in the PPBES process believe this is a healthy tension. Others worry that immediate issues, and some long-term needs, may be slighted. DOD is currently in the middle of another significant change as Secretary Rumsfeld pursues his goal of transforming both military and business affairs while actively employing some part of the operating force in combat situations. This reform is somewhat of a return to a more centralized pattern of operations.

**IX. PPBES Today**

In 2003, the Department of Defense (DOD) announced significant changes to the PPB system, renaming it the Planning, Programming, Budgeting and Execution System or PPBES (Secretary of Defense, 2003a). While the basic structure of PPBS remains, it was changed in several important ways. First, the reform merged separate programming and budget review into a single review cycle, done simultaneously rather than sequentially. Second, it incorporated a biennial budget process matched to national electoral cycles with major strategic changes slated for the second and fourth year of a Presidential term and minimal updating change made in the first and third years. Third, it fixed timing of the process so that planning and budgeting were clearly derivative processes driven by the Quadrennial Defense Review and the National Military Strategy. Fourth, it changed the cycle for Office of the Secretary of Defense (OSD) provision of the top level planning information to the military departments and services from annual to biennial. The result of these changes was to create a two-year decision cycle with a complete review in year one followed by limited incremental review in year two. This was meant to decrease turbulence and reduce unnecessary re-making of decisions. These changes made each on-year cycle quicker by compressing the programming and budgeting cycles, but preserved the decisions made in the on-year cycle through the off-year by limiting reconsideration of decisions to only the most necessary updates. Decisions would be made more quickly, but last longer.

This change in the venerable PPB system was part of but separate from Secretary of Defense Rumsfeld's efforts to transform defense and was not part of the Defense Transformation Initiatives presented to Congress in 2003. None of the reforms implemented in 2001 through 2003 in the PPB process needed Congressional approval; they were internal matters concerning how DOD would organize its planning and budgeting process. While critics had pointed out flaws in PPB for some time, the genesis of this set of reforms clearly appears to rest with Secretary Rumsfeld, who felt the process was too slow and cumbersome and did not deliver the "right stuff" on a timely

basis. This provided the impetus to accelerate the cycle, but also to avoid unnecessary remaking of decisions. Implicit in this process is the idea that SECDEF and his staff will be brought into the decision loop more quickly, though this is not articulated in documents that describe the process changes.

Each year the Secretary of Defense had issued the Defense Planning Guidance to guide the programming and budgeting processes with force structure directions and fiscal constraints. This comes after extensive analysis of world conditions, the threat situation and U. S. options and strategies. The Defense Planning Guidance describes SECDEF's guidelines for creating force structure to meet the threat, including his appreciation of fiscal constraints. The Defense Planning Guidance (DPG) will now become a biennial guidance. The Office of the Secretary of Defense will no longer provide the military services and defense agencies this annual classified planning document designed to help them develop their budget and program requests for the upcoming fiscal year. The move away from developing the top-level Defense Planning Guidance each year is part of the OSD move toward two-year budget cycles. If necessary, OSD may prepare "off-year" guidance documents reflecting minor strategy changes, according to Management Initiative Decision No. 913, issued May 22, 2003 by Deputy Secretary of Defense Paul Wolfowitz (Secretary of Defense, 2003a). The idea here is that the threat does not change that quickly. For example, the Cold War threat scenario lasted from about 1948 to 1990 and was followed by a "base force and reconstitute" scenario until 2001. Thus the threat picture has long term salience, and complete annual reviews to it followed by a full budget cycle were seen as costly and inefficient. The essence of the reform places the biennial issuance of the DPG document in a two-year cycle within the four years that a Presidential administration has to develop its national defense objectives and strategy. A series of documents has in the past guided this process, including the annual DPG, the Future Years Defense Program, the issuance of each new President's national security strategy, and development of the Quadrennial Defense Review for use by DOD and for reporting to Congress. The QDR consists of a comprehensive analysis of military readiness, capabilities and force structure that helps to provide a reporting framework to permit a newly elected administration to develop its spending plan and budget. Since the early 1990s, the QDR has become the primary external and one of the major internal

statements of policy by the Secretary of Defense. In order to explain these changes and how they are playing out we first examine the PPBES process and then discuss how the Department of Navy operated its budget process in the new PPBES process in 2002 and 2003.

## PPBES PROCESS OVERVIEW

The purpose of PPBES is to provide a systematic and structured approach for allocating resources in support of the national security strategy of the U.S. The ultimate goal of the entire PPBES process is to provide the military Commander-in-Chiefs with the best mix of forces, equipment and support attainable within resource constraints. Before delving into the full complexity of PPBES it is useful to review the system in summary. Once we understand how PPBES operates in general, we then review changes initiated in 2001 and 2003 to significantly modify PPBS into what is now PPBES -- the result of significant reforms authorized by Defense Secretary Donald Rumsfeld under the administration of President George W. Bush. Then, when we understand the changes made during this period, we examine how the process operates in detail.

PPBS has four distinct phases, with each phase overlapping the other phases (Jones and Bixler, 1992: 19-31).

The **planning phase** begins at the Executive Branch level with the President's National Security Strategy (NSS) developed by the National Security Council. The NSS takes its input from several federal agencies (including the Department of State, the Central Intelligence Agency and others in the intelligence community) to ascertain the threats to the U.S. in order to form the nation's overall strategic plan to meet those threats, thereby outlining the national defense strategy. Subsequently, the Joint Chiefs of Staff (JCS) produce a fiscally unconstrained document called the National Military Strategy Document (NMSD). The NMSD contains their advice regarding strategic planning to meet the direction given in the National Security Strategy while addressing the military capabilities required supporting that objective. As a follow on to the NMSD, the Chairman of the Joint Chiefs of Staff (CJCS) advises the Secretary of Defense, in the Chairman's Program Recommendation (CPR), regarding joint capabilities to be realized

across DOD military components. The CPR provides the personal recommendations of the Chairman of the Joint Chiefs for promoting joint readiness, doctrine, and training, and better satisfying joint warfighting requirements in order to influence formulation of the Defense Planning Guidance. The Chairman's Program Recommendation (CPR) is seen as a key joint staff input from the CJCS and his staff into the PPBES process. It is meant to help steer the Defense Planning Guidance.

All of the above inputs are provided to the Secretary of Defense (SECDEF) for drafting and ultimately issuance of the Defense Planning Guidance (DPG), and the Future Year Defense Plan, a six-year projection of department-wide force structure requirements. The DPG provides the military services official guidance regarding force structure and fiscal guidelines for use in preparing their Program Objectives Memorandum (POM) during the programming phase of PPBES. For purposes of reporting to Congress on defense planning, the DOD also prepares and transmits a comprehensive report referred to as the Quadrennial Defense Review (QDR). In the past decade, the QDR has enhanced the FYDP and DPG for purposes of planning for the Office of the Secretary of Defense (OSD) and DOD. The exhibit below shows how these planning documents lead directly into the budgeting process.
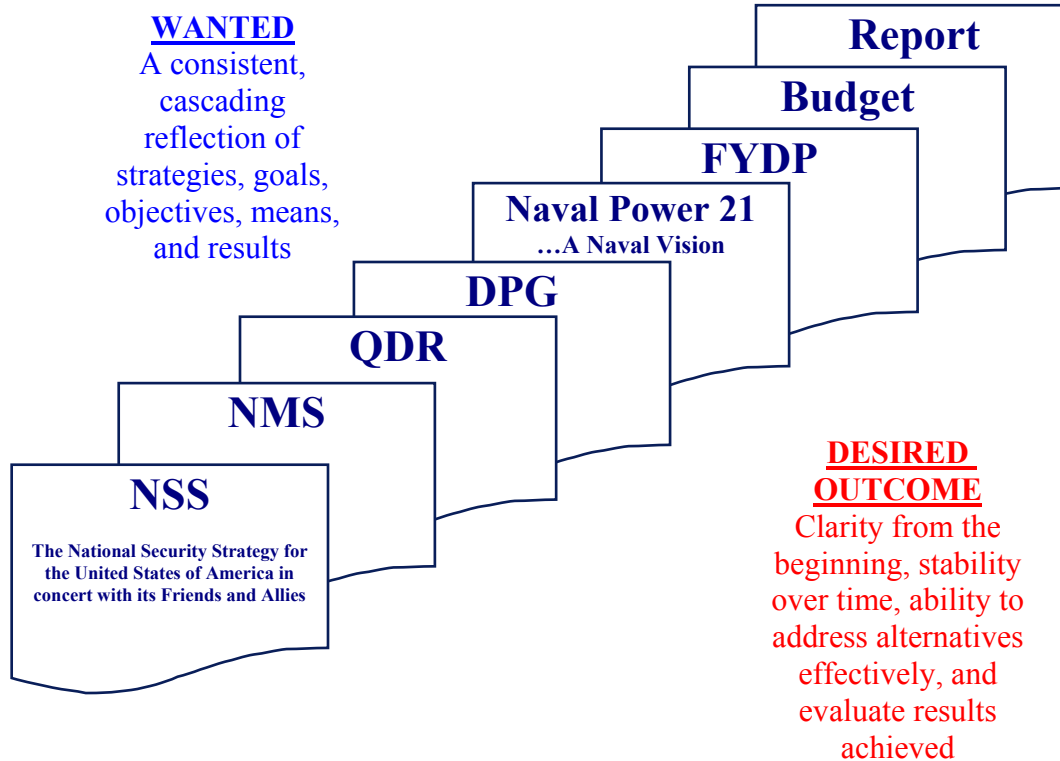
The purpose of the **programming phase** is for each military component to produce a Program Objectives Memorandum (POM) to address how they will allocate resources over a six-year period. The development of the POM requires the services to consider numerous issues including their Commanders-in-Chiefs' (CINCs) fiscally unconstrained Integrated Priority Lists (IPLs) stipulating programs that must be addressed during its development. The POM must also support the guidance given in the DPG and operate under fiscal constraints issued within it, e.g. total obligational authority by military department by year. POMs are developed in even numbered years and subsequently reviewed in odd-numbered years.

Woven within the POM are the Sponsor Program Proposals (SPPs) developed by resource sponsors (e.g., the major commands, systems commands and defense agencies) to address military service objectives, and preferences of the CINCs. The SPPs must be developed within the constraints of military component Total Obligation Authority (TOA), defined as the total amount of funds available for spending in a given year including new obligation authority and unspent funds from prior years.

Military department and service POMs are reviewed by the JCS to ensure compliance with the NMSD and DPG, assessing force levels, balance and capabilities. Following the review, the CJCS issues the Chairman's Program Assessment (CPA) to influence the Secretary of Defense decisions delineated in the Program Decision Memoranda (PDM) marking the end of the programming phase. The Chairman's Program Assessment is another key steering device that the Chairman uses to give his personal assessment of the adequacy and risks of service and defense agency POMs. He also proposes alternative program recommendations and budget proposals for SECDEF consideration prior to the issuance of Program Decision Memoranda (PDM) by SECDEF. The PDM issued by OSD approves or adjusts programs in each POM. The POM that has been amended by the PDM provides an approved baseline for military departments to submit their budget inputs. While the programming phase of PPBES operated as a separate cycle from the 1960s through the early 2000s, in August 2001 Secretary of Defense Donald Rumsfeld merged the POM and budget review cycles as is noted later.

In acquisition matters, the Chairman of the Joint Chiefs is supported by the Joint Resources Oversight Committee (JROC) a committee led by the Vice Chairman of the Joint Chiefs and composed of the service Vice-Chiefs who review all joint acquisition programs and programs where a joint interest in interoperability is evident. The Chairman then can and does make recommendations about acquisition priorities. This is another change rising out of Goldwater-Nichols and out of the Grenada operation where Army and Marine troops on the ground could not communicate with other units because the radios used were not interoperable. The JROC approves the mission need and conducts an analysis to see how well the suggested acquisition program meets these needs. The

process of staffing a proposal up to the JROC decision level involves assessment and analysis by various committees ending at the Flag level, and analytic effort by JCS staff and can take four to five months. A successful program that is vetted and found to meet joint requirements then has a priority attached to it at the JROC level and is then passed into the POM and later the budget for funding.

Part of the 2003 reform was intended to accelerate and improve the acquisition process. In April 2002, Defense Planning Guidance study #20 (Secretary of Defense, 2002b) concluded that the resource requirements process frequently produced stovepiped systems that were not necessarily based on required capabilities and incorporated decisions from a single service perspective. The study found that the acquisition process did not necessarily develop requirements in the context of how the joint force would fight. Rather, requirements tended to be more service-focused. Moreover, duplication of efforts was apparent in the less visible and smaller acquisition programs. The study observed that the current culture aimed for the 100% (perfect) solution and this resulted in lengthy times to field weapons. In addition, the process was still found to lack prioritization of joint warfighting demands. Ongoing reform here resulted in reshaping of the JROC process so that decisions would be better set up for JROC to make its decision by two new oversight committees reporting to it, headed by flag officers and focused on functional areas. This is an on-going part of the 2003 reform and is indicative of Secretary Rumsfeld's interest in joint operations, joint warfighting, and a quicker acquisitions process. In the exhibit above, the Future Year Defense Plan (FYDP) is the database of record in which POM and budget actions are tracked and recorded. The FYDP is updated after every major process action, e.g. submittal of President's budget, passage of appropriation bill, conclusion of program change proposals and budget change proposals.

The **budgeting phase** begins with the approved programs in each military service POM. Each military component costs out the items that support its POM for the budget year and submits its part of the budget as its Budget Estimate Submission (BES). The BES in even-numbered "POM years" is a two-year submission and is based on the first two years of the POM as adjusted by the PDM. The BES's are amended by the services during the

POM update occurring in odd-numbered years and cover only one year. Every BES is reviewed by military secretariats under the authority of the military department secretaries because budgeting is a civilian function in DOD, as mandated by Congress in the 1970s. The budgets of the military department Secretaries are then reviewed by the DOD Comptroller, other OSD officials, the JCS and ultimately by the Deputy and Secretary of Defense.

The Office of the Secretary of Defense cooperates in this review with the President's Office of Management and Budget. This review attempts to ensure compliance with the DPG, the PDM and the President's National Security Strategy. SECDEF staff makes changes and provide rationale for these changes in the form of Program Budget Decisions (PBD). Before becoming part of the President's Budget, required for submission to Congress no later than the first Monday in February, PBDs are issued to allow the military department secretaries and budget staff to respond with appeals of cuts (reclamas) to SECDEF/OSD Comptroller staff. Once major budget issues have been resolved, the final defense budget is sent to OMB to become part of the President's Budget. This step constitutes the end of the budget proposal and review phase of PPBS. However, as noted subsequently, budget execution is a critical part of PPBS typically ignored in analysis of this system.

**Budget execution** consists of first gaining permission to spend appropriations approved by Congress through a separate budget submission process referred to as the allotment process. In allotment review, DOD must show how it intends to spend what has been appropriated, by quarter, month, or fiscal year for multiple year appropriations. This is always somewhat different than what was proposed in the President's budget since appropriations must now be attributed to programs and allocated into the months they will be obligated (usually by quarters). After allotment approval is received from OMB and the Treasury, DOD begins the process of separating and distributing shares of the DOD budget to the military departments and services and other DOD commands and agencies. After they have received their spending allotment authority, these resource claimants begin to incur obligations to spend, and then liquidate their obligations through

outlay of money. During this process, comptrollers and budget officials at all levels of DOD monitor and control execution of programs and funding. At the mid point of the spending year, the military departments and services typically conduct a mid-year review to facilitate shifting of money to areas of highest need. At the end of the fiscal year (September), all DOD accounts must be reconciled with appropriations and spending must be accounted for prior to closing the accounts from further obligation and outlay (for annual accounts). Financial and management audits by military department audit agencies, the DOD Inspectors Generals, the General Accounting Office (GAO) and other entities follow the conclusion of execution and reporting.

An overview of the new PPBES decision cycle is provided in Exhibits 1 and 2.

Exhibit 4.1: Summary of 2003 PPBES Cycle

| Year 1: Review and Refinement | Year 3: Execution of Guidance |
|---|---|
| • Early National Security Strategy | --- |
| • Restricted fiscal guidance | • Restricted fiscal guidance |
| • Off-year DPG, as required (tasking studies indicative of new Administration's priorities; incorporating fact-of-life acquisition changes, completed PDM studies, and congressional changes) | • Off-year DPG, as required (tasking studies; incorporating fact-of-life acquisition program changes, PDM studies and congressional changes) |
| • Limited Changes to Baseline Program | • Limited Changes to Baseline Program |
| • Program, Budget, and Execution Review initializes the on-year DPG | • Program, Budget, and Execution Review initializes the on-year DPG |
| • President's Budget and Congressional Justification | • President's Budget and Congressional Justification |

| Year 2: Full PPBE Cycle – Formalizing the Agenda | Year 4: Full PPBE Cycle – Ensuring the Legacy |
|---|---|
| • Quadrennial Defense Review | --- |
| • Fiscal guidance issued | • Fiscal guidance issued |
| • On-year DPG (implementing QDR) | • On-year DPG (refining alignment of strategy and programs) |
| • POM/BES submissions | • POM/BES submissions |
| • Program, Budget, and Execution Review | • Program, Budget, and Execution Review |
| • President's Budget and Congressional Justification | • President's Budget and Congressional Justification |

Source: Secretary of Defense, Management Initiative Decision 913, 2003: 3.

Exhibit 4.2: Calendar for Four Year Cycle of 2003 PPBES Cycle
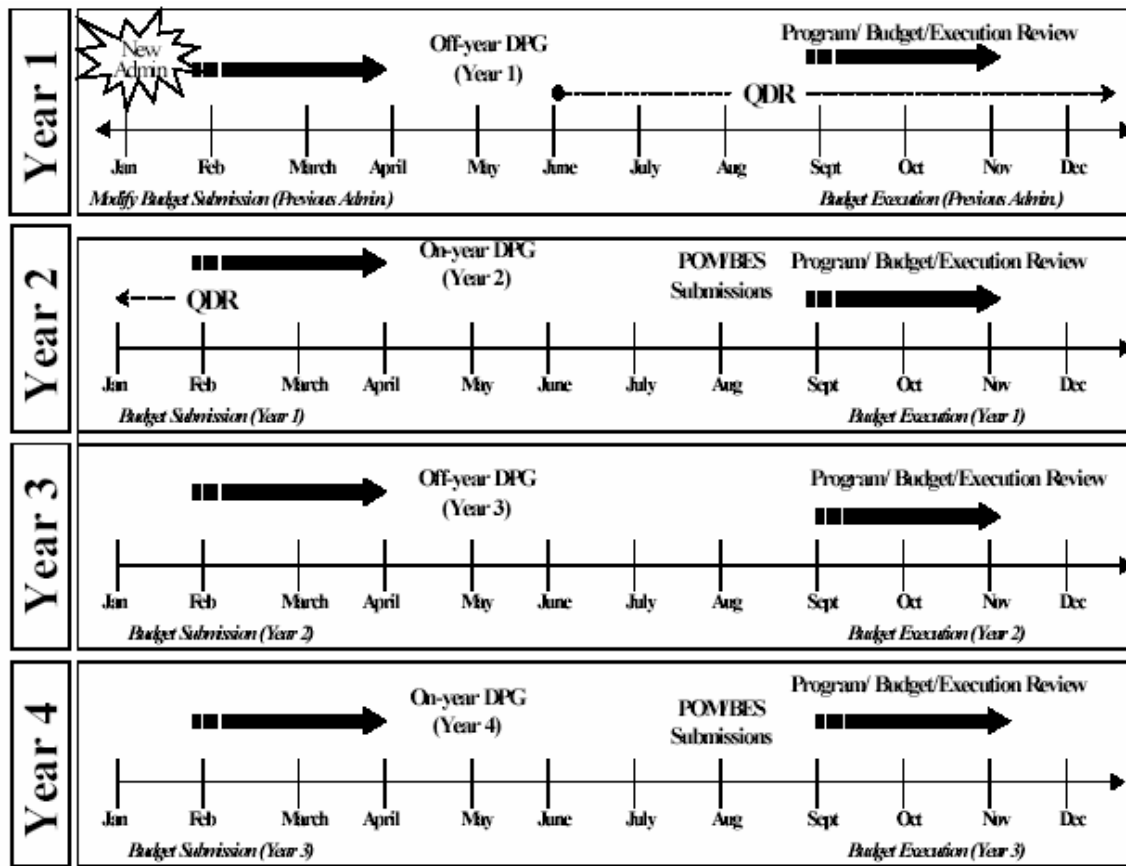
Source: Secretary of Defense, Management Initiative Decision 913, 2003. 4.

**PPBES: Year One**

Management Initiative Decision 913 sets out a two-year budget and planning cycle within the framework of the four years in a Presidential administration. Year one requires "review and refinement" of the previous President's strategy and plans, including only limited changes in programs and budgets, an early national security strategy, and an "off-year DPG." As stated in MID-913, "The off-year DPG will be issued at the discretion of the Secretary of Defense…The off-year DPG will not introduce major changes to the defense program, except as specifically directed by the Secretary or Deputy Secretary of Defense…However, a small and discrete number of programming changes will be required to reflect real world changes and as part of the continuing need to align the defense program with the defense strategy," (Secretary of Defense, 2003a: 5). A major

objective of the off-year guidance will be to provide the planning and analysis necessary to identify major program issues for the next DPG. One of the benefits of the new four-year cycle is that it fits the PPB process into the electoral cycle. Incoming administrations usually struggle to get their people on board in the first year and significant defense policy changes usually do not come until later. The new cycle recognizes this reality. Significant events do happen in year one. The National Security Strategy is issued at about mid-year and the Quadrennial Defense review begins shortly thereafter and is issued early in Year Two. These are significant guidances for defense strategy and resource allocation.

**PPBES: Year Two**

Year two in the new four-year framework is more intense in that the military departments and services and OSD will conduct full program, planning, budget and execution reviews to formalize the President's defense posture and strategy, including the resource portion of the strategy. In addition to a Quadrennial Defense Review issued early in the year, the second year will include a full, "on-year" Defense Planning Guidance (DPG), issued in May and designed to implement the QDR results. Previously, the QDR had been issued on 30 September in the first year of a Presidential administration. However, in the FY 2003 Defense Authorization Act, Congress changed the QDR reporting requirement to the second year to provide new DOD leadership more time for analysis and preparation. Senior defense officials had argued to Congress that the requirement to submit a QDR in the first year was too much to ask of a new administration barely through the rigorous congressional process for confirmation of presidential appointees to head the DOD and military departments. Year two will see then a full POM and a full budget build. These result in a full FYDP build.

**PPBES: Year Three**

The new planning and budget process specifies that year three be used for "execution" of the President's defense plan and budget agenda as provided in the QDR and the previous year's DPG. Year three corresponds with FY 2005 in the budget cycle and could include an "off-year" DPG if so desired by the Secretary of Defense. This off-year guidance

could task new studies, or incorporate fact-of-life changes in acquisition programs including increased costs or schedule delays as well as congressionally mandated changes. In May 2003, Zakheim indicated that no 2005 DPG was to be prepared under the Bush administration and Rumsfeld. However, the Presidential elections of 2004 could change this plan. Year three is a year of refinement of objectives and metrics with only the most necessary program or budget change proposals considered.

Careful examination of DOD execution of dollars and plans is a critical part of the new planning and budgeting process. Traditionally, budget execution has been left primarily to the military departments. However, the revised process provides OSD with greater opportunity to examine and critique the budget execution decisions of the military departments and services. Zakheim reported in February a widespread agreement in the DOD not to return to a comprehensive annual budget and program review; rather the intent was to use the off year to measure the "burn rate" (rate of spending) in an execution review. To this end, the comptroller said the review would include asking questions such as how money is being spent, if it should be moved to other areas and accounts, and the results achieved from execution.

An important budget changed initiated by the Bush administration announced in February 2003 and subsequently by the DOD Comptroller is implementation of "performance-based budgeting," to focus more on the costs of achieving desired military and programmatic outcomes, rather than concentrating budget review on the details of program administration and production. The driving military concept behind performance-based-budgeting (PBB) is the concept of "effects-based capabilities" for war fighting. The effects-based approach focuses on desired end results from a military action rather than the military action itself. Under this concept, military commanders specify the results, such as capture of territory, in addition to the amounts and types of forces needed to achieve the outcome.

**PPBES: Year Four**

Year four in the budget and planning cycle is characterized in MID-913 as the point where the achievements of a four-year Presidential administration are assessed. This year

will include preparation of a full DPG to refine the alignment between Presidential strategy and the DOD program and budget. As usual, the DPG will initiate and guide the cycle of military department and service POM and budget preparation, review and submission (for FY 2006). Then, the next full PPBES cycle will encompass Fiscal Years 2006 to 2011.`

## X. REFORM EVENTS IN 2001-2003

The programming-budgeting changes that constituted a redesigned PPBE system began in August of 2001, when SECDEF Rumsfeld announced that the POM and Budget cycle would be operated contemporaneously to speed up the review and decision process (Rumsfeld, 2001). On January 31, 2002, Secretary Rumsfeld used the occasion of a speech at the National War College to unveil his transformation plans and part of the reasoning behind them. The following excerpt the question and answer period after the speech clearly indicates Rumsfeld's dissatisfaction with the PPB system.

Question: "...I was wondering if you could give us your thoughts on the need for transforming this support (PPB) system. [Cheers, whoops, applause.][Laughter.]

SEC. RUMSFELD: [Laughs.] I'm not going to give you the particulars, but about eight, 10 weeks ago I had to sit through a meeting with the president of the United States, and these nice folks came in and they started a briefing, and they explained exactly what was happening, and they said that...it starts with the presidential guidance, and then it comes to the secretary of Defense guidance, and then it goes down to the CINC, and then it's worked on, and then it proceeds all the way out to the other end, and here's what we're presenting today. And he had pictures of the president and a picture of the secretary of Defense up there, and I looked at it, and I said, "When did the president give that guidance?" And it was 24 months ago. It was another president. [Laughter.] I said, "When did the secretary of Defense give that guidance?" And it was 18 months ago. It was a different secretary of Defense.

"And these nice folks, they worked their heads off, they -- just like beavers, and they produced this thing, and it came out. If -- you know, you -- it had nothing to do with today. It had nothing to do with anything that was going on today. And wonderful,

dedicated, fine, talented people doing ... work ... that was wasteful of their time, and a shame, and I felt badly. These procedures that this department has are so powerful; it's like a train being loaded in San Francisco, the freight train. Car after car is filled the way someone believed it should be done six months ago, before September 11th. And then it starts rolling down the track, and it comes and it comes and it comes, and it arrives in New York City and it unloads, and it's nothing anyone needs."

Later Rumsfeld returned to this analogy.

"These... freight trains that are going down the track, as I said earlier, don't connect. We can perfectly compare all the war risks between North Korea and Iraq and this and that, and it does not connect at all to the people risks, it doesn't connect to the modernization risks, it doesn't connect to the transformation risks. They're all on separate tracks, and there isn't any way to look at these. One's apples. The other's oranges.

Now what we going to do about that? Is that what the question was?

[Laughter.] We're going to do everything that is humanly possible. I am absolutely dumbfounded and shocked that it can work the way it works, and wonderful, talented people can work their heads off in it, and that we aren't capable of getting them to connect between them and to get them sufficiently fast and sufficiently flexible."

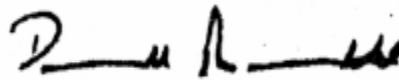Toward the conclusion of the period, Rumsfeld made it clear that he felt the system needed to be fixed.

"The way the Department of Defense runs, the budgeting system, the planning system is, broken. It is not serving the department or the country well. And yet it is inexorable. It just rolls along, like the freight train coming from San Francisco with the wrong things for New York. And there are plenty of people who look at it and don't know it's wrong. I sat in meeting after meeting, and people said, "Well, that's the way we do it. This is how it works. This is what it is." And, "Don't you understand that the only way to affect that is to reach back 2-1/2 years ago and load it properly?" And of course my answer is, "Don't you understand we didn't have -- we don't have 2-1/2 years to wait to change? We need to get at it."

Rumsfeld had already started DOD down this path by collapsing the programming and budgeting processes into one sequence as per his memo of August 2, 2001.

SUBJECT: Concurrent Defense Program and Budget Review

This memorandum is to assist you in planning for submission of the FY 2003 budget and FY 2003-2007 program. This year, and in the future, we will conduct a concurrent program and budget review. The review this year will consider all program and budget issues and be the primary venue for resolving any programmatic or budget issues arising from the Quadrennial Defense Review. It will be used to verify that programs proposed by Components can be executed within established fiscal guidance and focus on issues that arise during execution and from other fact-of-life changes. Issues previously resolved by the Secretary or Deputy Secretary of Defense will not be revisited.

Your submissions for the concurrent review will be due October 1, 2001. We are currently in the process of developing overall guidance for the review, to include which specific exhibits will be required. All additional information will be provided to you by the Under Secretary of Defense (Comptroller) as soon as the details are completed.

The impact of this memo was dwarfed by the events of 11 September 2001 and subsequently, but it was a process direction and when business-as-usual was resumed, budget process players found that the game had changed. In addition to Rumsfeld's critique of the PPB process, interviews with Navy FMB officials, fleet comptrollers and other DOD financial management executives revealed a number of concerns about the old consecutively phased PPBS process, including concerns about:

- Inadequate Guidance: it was felt that the Defense Planning Guidance issued by SECDEF to initiate the POM process which led to decisions about what to fund for the budget year was often late and unaffordable and did not provide a clear statement of SECDEF priorities.
- Concurrent process flaws: program and budget processes appeared concurrent but were not well coordinated.
- Continuous rework: the POM and budget were subject to disassembly, rebuilding and review every year.
- False precision: programming for the acquisition process required excessive detail and was projected too far into the future years.

- Revisiting decisions: decisions made during one cycle were not always recognized and respected in the next.
- Changing Rules: rules, expectations and metrics complied with in advance by the Navy were changed later in the process to facilitate cuts.

Lastly, FMB executives believed that SECDEF oversight should be limited to those matters of true significance or policy compliance. Here it appears that the Navy budget-makers were trying to keep some military department autonomy, but arguing for relative spheres of decision, some appropriate to SECDEF and some to the military department. As DOD simplified the PPB process, DON simplified its part of the process by dividing its budget accounts into three tiers, those driven by formula, those focused on procurement and acquisition, and all the rest. The investment accounts tied to weapons, ship or aircraft acquisition accounted for 36% of the Navy budget. While the Military Departments originate some investment account decisions, some are also originated by the CINCs through the Joint Chiefs staffing establishment and cleared through SECDEF and his Acquisition Assistant Secretary. This is an extensive and detailed review from many perspectives, military department, Joint Chiefs, war fighters, area commanders, one in which Congress also has an interest due to concerns over the amount of money required and where weapons will be built. This is the capital side of the operating budget which requires choices about what to build and then constant tending as to how the program is coming each year. The budget reforms of 2002-3 attempted to put the rest of the DON budget on automatic pilot by dividing accounts into those that had a historical base (11% of the budget) and those that had a performance model base (53%) and were driven by formulas. These included such accounts as the flying hour program, the ship operations program, training workload, Marine Corps operations, Aircraft Maintenance, Ship Maintenance, Spare parts, USMC Depot Maintenance, Facilities, and Base Operations. Secondary models included military Personnel (both active and reserve) and Civilian personnel. These models produced cost figures, but unlike the first group did not model performance. A manager was designated for each of these formula-driven modules and a validation process was begun to verify that the models were accurate and that the correct inputs were used. The object of the change was that in subsequent budgets these

models would automatically provide their part of the budget request and that the performance models would be able to specify outputs from dollars of input.

Those expenses that were driven neither by formula nor investment were termed "level of effort programs." These last items were to be based on a three year rolling average of what was actually spent and increased or decreased as the level of effort varied for the program. This is currently the scheme under which the Navy plans to operate its budget process as it goes forward with reform -- first, with a more formula driven budget and, secondly, with intense interest in the investment accounts and, thirdly, to focus within the base to free up more money for the investment. Implicit in this would seem to be concept that the readiness accounts will be replenished by supplemental appropriations when they become unbalanced by emergency increases in military operating requirements (optempo). Secretary Rumsfeld had expressed impatience in the January 2002 speech with a process that led to 100% preparation of a budget each year for what would turn out to be change to about 21% of it:

"So you fashion 100 percent of a budget for a single year, and it comes back having been altered by 21 percent, with thousands of earmarks. That adds the number of people you have to have. It adds the amount of time it takes to do anything. It adds the lack of flexibility if you need -- if the world changes in between, so that you can function."

Certainly DON's changes to its budget process were in keeping with Rumsfeld's philosophical approach to process simplification. The major outcome of this thrust was to divide the process into on-year and off-year cycles.

## On-year Cycle (2002): Concurrent Program and Budget Review

As noted, in 2002 the PPBES process was changed to run program and budget review concurrently. Prior to August 2001, the military departments and services developed and submitted their POMs to OSD for review in May. The services would then start to build their Budget Estimate Submissions (BES) based on the POM. In 2002, military departments and services were required to submit both their budget submission (BES) and their POM to OSD simultaneously in late August. Because of this change, the Navy budget submissions were developed based on Tentative POM (T-POM) control numbers

issued in late May. We view this change from the operator perspective with the budget office of the Pacific Fleet (CPF), a large field claimant.

A CPF programming official explained the advantages of the concurrent POM and budget process as follows:

> It eliminates unnecessary duplication of effort. Prior to the change, the POM would be finished in May. Then, budgets would be prepared for OSD review. Emerging issues could cause services to change the program while developing the budget…Gives the services longer to finish the POM while incorporating emergent budget issues. Services can re-visit the program based on budget issues…Prior to the change, OPNAV N80 would finish the program and then it was "out of their hands…The new process leads to more cooperation between programmers and budgeters…I think it [the new process] gives claimants more input into the program…Take Information technology -- if many claimants have issues with funding, it can become a major issue. Now you can revisit the POM; before you couldn't. Claimants can also say they can't execute the program as funded by controls. (Reed, 2002)

When the process ran consecutively, coordination was more difficult. If the POM was not completed until after CPF finished its budget, how could the POM guide or control the budget? Neither N-80 nor anyone else could "enforce" POM numbers. Budget staff believed the POM process was flawed, that it operated on a "fair share" principle where priorities were not realistic. They were not confident of the POM process that seemed to "give everybody something." Budget staff had to "fix" the POM in the budget, at least for the budget year. This had consequences for future POM planning that programmers often objected to, because they did not support having the budget drive the POM, especially because it happened virtually every year after 1990 when budget staff were forced to make cuts and corrections irrespective of the POM. For these reasons and others, friction arose between the budget and POM communities. The concurrent POM- budget process

may ameliorate some of this tension.

At CPF, comments by the Deputy Comptroller were reinforced by the head of the budget department and the comptroller. Both agreed that the change could provide more coordination between programmers and budgeters. According to the CPF Comptroller,

> Secretary Rumsfeld has been talking about transformation and new ways of doing things. He's saying we can't continue to think of things the way we always have. To me, this is transformation applied to resource allocation, programming, budgeting, and requirements determination. They're (OSD) looking to streamline things and make them more efficient, to eliminate redundancies, and to ask questions just once instead of over two different processes…When you have a concurrent process, you're forced to work together. (Reed, 2002)

The budget department head echoed these comments:

> I think the intent was to streamline the process so that there's not so much flux. Before, once the program locked, you had to wait a whole cycle or try to fix the program in the budget. What we're trying to do instead of trying to fix it (the program) in the budget is to make the program executable in the programming stage and only have to concern ourselves with pricing and pop-up issues in the budget…so there also were not as many required exhibits (Reed, 2002).

While there was agreement among CPF staff on the reasoning behind the change to a concurrent program/budget process, there was some disagreement about the new process. Observers noted there was very little direction given as to how the new process was to be implemented. The only guidance provided initially was a one-page memo from SECDEF. The CPF Comptroller indicated that the change to a process that had been conducted in

much the same way for many years caused anxiety among personnel within the CPF programming and budgeting organization, but he, "…did not want to be too quick to jump to conclusions." (Reed, 2002) Comments from other staff members were not as encouraging.  One analyst described the process as "chaos."  As late as late June, 2002, after their original POM 2004 budget had been submitted to FMB based on draft POM control numbers, there were still questions among CPF staff on how the new process would work.

In the end, CPF was able to work through issues related to the concurrent program/budget and submitted their DON FY 2003 budget on-time based on both programming and budgeting changes that occurred as a result of issue papers, comments and reviews at the FMB, N80 and other levels.

It is useful to reflect on how these relationships change because of the change in the PPBES process.  According to Thompson (1967), and Nadler and Tushman (1988), there are three types of interdependence in complex organizations:

- Pooled Interdependence

- Sequential Interdependence

- Reciprocal Interdependence

Pooled interdependence occurs when separate units operate independently but are part of the same organization and share certain scarce resources.  An example is a bank with several branches.  Individual branches function independently of each other but share certain resources of the main corporate entity such as advertising or marketing.  The branch banks do not depend on each other for their functioning.

Sequential interdependence occurs when a unit or task downstream of another depends on the prior unit's output or task completion.  Sequential interdependence demands a greater degree of coordination than pooled functions.  The work of one unit can be affected by upstream units.  Coordination must exist to ensure that workflows remain constant.  An example of sequential interdependence would be an oil company.  First, oil must be extracted from the ground, then it must be refined into different products, then it is

shipped to customers.  One task cannot be completed prior to the previous tasks and coordination between tasks must exist to ensure that workflow remains constant. Resources must be expended to maintain such coordination. This type of dependence characterized the pre-2001 separate POM-budget review process.

Under reciprocal interdependence, work groups must work continuously with other units in the production of common products.  Reciprocal interdependence imposes substantial problem solving requirements between units because no single unit can accomplish its task without the active contribution of other units. The new concurrent POM-budget review process is an example of reciprocal interdependence. As tasks become more interdependent, the amount of coordination and communication between tasks increases. Reciprocal interdependence represents the highest degree of interdependence and therefore the highest degree of required communication and coordination between units.

As noted, prior to the 2001 POM-budget review change, the system operated during the preparation phase of PPBES with a high degree of sequential interdependence between programming and budgeting where each successive process (programming then budgeting) was dependent on the one prior to it. Once the input was received, downstream tasks were not supposed to have an effect on the output of the previous phase of action, i.e., budget changes were not supposed to cause changes in the existing POM.  However, this was not an accurate description of what actually happened as we have demonstrated. The 2001 change to establish a concurrent program/budget review process recognized that in reality there is a high degree of reciprocal interdependence between the two functions. Actions taken during the budgeting phase of PPBES have significant impact on the upstream process of programming.

Personnel at CPF long recognized the reciprocal nature of planning and budgeting. Had the threat and budgetary environment been stable, perhaps no PPBES changes would have been necessary. However, neither condition held. The threat environment was not stable and the budgetary environment fluctuated during the 1990s and with the advent of the war on terrorism as operating tempo remained high in response to contingencies. As a result, there was friction throughout the system, most significantly at the top where the old PPB system was not producing the outputs desired by Secretary Rumsfeld quickly

enough. The problems with PPBS that irritated Secretary Rumsfeld had been identified by critics for decades but it took a determined SECDEF to make changes (Puritano. 1981; Jones and Bixler, 1992: 32).

**Off-year Cycle (2003): Limited, Incremental Change**

On February 3, 2003, DOD Comptroller Dov Zakheim presented the new DOD biennial budget part of the reform with the release of the President Bush's Fiscal Year 2004 defense budget request. Zakheim indicated that DOD would use the off years when budgets would not be prepared from scratch to examine how well DOD was executing its programs and dollars (Secretary of Defense, 2003a). He noted that as of this budget (FY 2004) FY-05 would be an "off year" in which only significant revisions to the budget would be requested from Congress. This meant that the budget process conducted during the summer and fall of 2003 to prepare the FY2005 budget would be significantly changed. For example, DOD will not prepare the Program Objective Memoranda (POM) or budget estimates for FY-05. Instead, OSD will use estimates for FY 2005 as they were estimated in the FY 2004 budget and Future Years Defense Program (FYDP), which covers FY 2004 to FY 2009. An updating mechanism has been created for the off-years, e.g. FY05.

Military Departments and CINCS may create Program Change Proposals (PCPs) to affect the POM and Budget Change Proposals (BCPs) to speak to new budget needs. The PCPs allow for fact of life changes to the previous year's POM; they are meant to be few and of relatively large size. Guidance for 2003 indicated the PCPs had to exceed a set dollar threshold or have serious policy and programmatic implications. For example, in 2003 the Navy submitted only three PCPs, one worth $100 million that involved 450 line items. The Navy would submit only three PCP's in 2003. For all of DOD the number of PCPs was estimated to be about 120. For the CINCs, the PCPs are a new tool provided them in the PPBE process, but like the military departments, they have to suggest offsets. For example, if a CINC wants to increase force protection in one area at a certain cost, he has to suggest weakening force protection in another area as an offset for the increase. This is meant to be a zero-sum game. Changes have to be accompanied by offsets or billpayers. As is usual with any offset procedure, claimants who submit either PCPs or

BCPs take the risk that the offsets they suggest will be accepted, but the accompanying change proposals the offsets were intended to fund might not be. In such cases, the offset reveals a pot of money for a lower priority item that might be directed to another area. The budget change proposals were expected to be more numerous but smaller. They too would be largely fact of life changes (e.g. cost increases, schedule delays, new congressional directives) and would have to be paid for by offsets. Although the individual BCP need not be offset, the package of offsets provided by a Military Department has to be offset and provide a zero balance change. The FY 2006 budget request will be prepared completely anew, marking the first biennial POM and budget in the new two-year cycle. A Defense Planning Guidance will be prepared by OSD to guide the FY 2006 process.

In April 2003 Defense Secretary Donald Rumsfeld canceled the 2005 DPG due to the budget process changes announced in February by Zakheim to concentrate Pentagon analytical resources on determining whether Saddam Hussein's ouster and the progression of the war on terrorism had mandated additional changes in the Bush administration national defense strategy. In addition to prioritizing how OSD believes military dollars should be spent in upcoming years, the DPG typically calls for studies on top issues and indicates new strategies to be undertaken. Rumsfeld's action violated no rules, as the Secretary of Defense is not legally required to prepare an annual Defense Planning Guidance.

The exhibit below clearly shows the change from the old ppb systems to the new PPBES systems as implemented by the Department of the Navy.
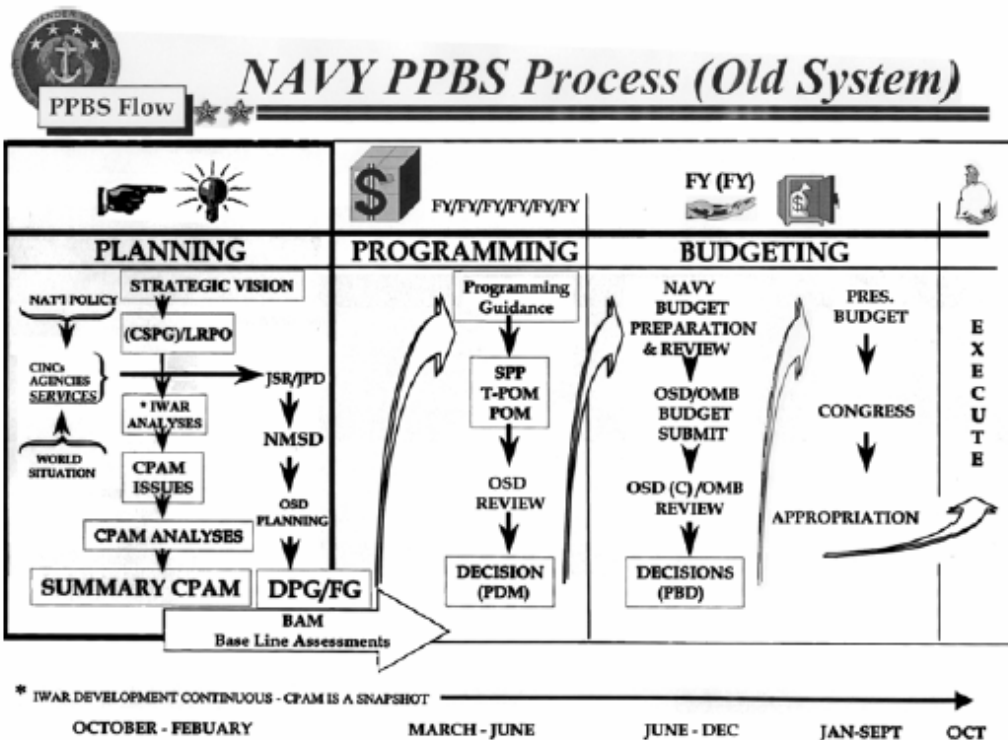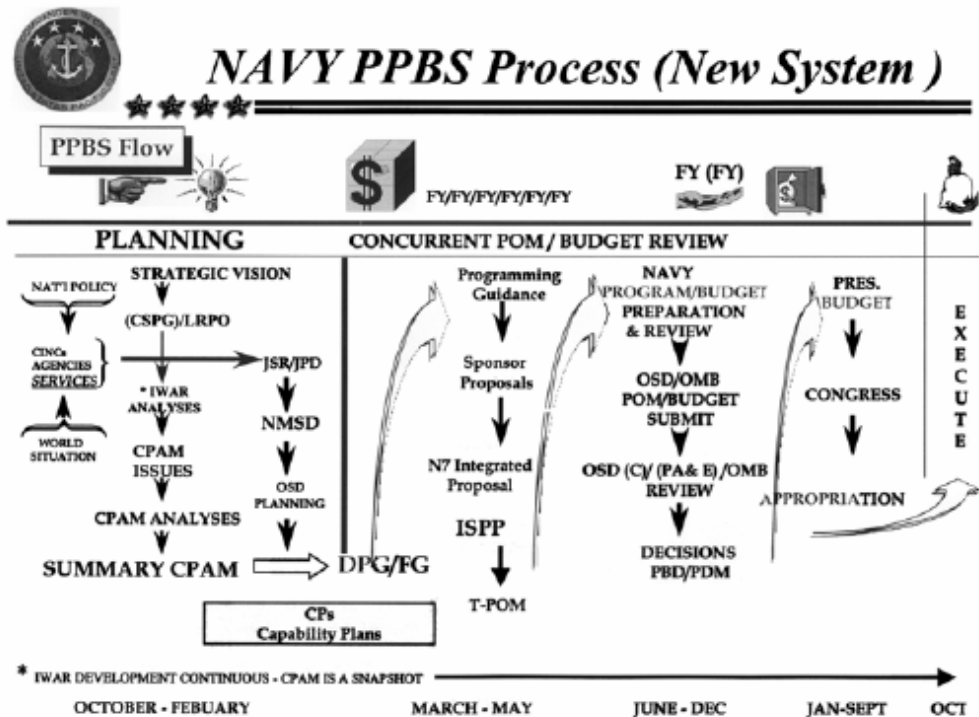
Figure 9.        PPBS Prior to 2001. [Ref.1]

**Budget Reform and Defense Transformation**

The reform of PPB was both part of and separate from a greater effort for defense transformation. A statement supporting the "Defense Transformation Act for the 21st Century" (DTA) was delivered by Deputy Secretary of Defense Paul Wolfowitz to the House Government Reform Committee on May 6, 2003 (Wolfowitz, 2003). Wolfowitz indicated the desire of the Bush administration and Secretary Rumsfeld to implement broad management, financial and budgetary reform in DOD. Subsequent to this presentation, Congress later passed portions of the DTA as part of the Defense Authorization Act of 2003, but was reluctant to give DOD certain broad discretionary powers that it had sought in certain areas. Prior to submission of DTA to Congress in final form on April 10, 2003 in the months leading up to its formal delivery, DOD convened more than 100 meetings with members and staff to develop and debate its various provisions.

The Defense Transformation Act for the 21$^{st}$ Century represents comprehensive reform to address serious problems in DOD management systems. The Act is intended to provide the military departments and services greater flexibility to respond effectively to changing threats and the ability to move resources more rapidly, and to put new weapons systems in the field more quickly. The Act includes more flexible rules for managing the flow of money and personnel in DOD to facilitate response to threat requirements. The DTA includes authority for DOD to convert a number of non-military functions that have been assigned to DOD over the years to other, more appropriate departments. The DTA authorizes elimination of regulations that make it difficult for small firms to do business with DOD. It includes expanded authority for competitive outsourcing to move military personnel out of non-military jobs and back into the field. It also includes measures to protect military training ranges. In support of the DTA, Secretary Rumsfeld made a plea for greater delegation of authority and freedom from micromanagement from Congress (Rumsfeld, 2003: 35). He cited that:

• The defense authorization bill had grown from only one page in 1962 to a "whopping" 534 pages in 2001.

• DOD is required to prepare and submit some 26,000 pages of justification and more than 800 required reports to Congress each year -- many of marginal value, most probably not read. Since 1975, the time it takes to produce a new weapons system has doubled, even as new technologies are arriving in years and months, not decades. (Rumsfeld, 2003: 35)

The possibility of obtaining increased delegation of authority from Congress to DOD has captivated defense budget analysts and reformers since the late 1960s. Prior to the 1960s the defense program and budget was approved in a far less controversial manner than the way the process has operated since "hawks' and "doves" began a protracted battle in the halls of Congress over the Vietnam war. Objections to the Vietnam War and the spending plans of President Lyndon Johnson caused an increase in congressional authorization and appropriation detail and specificity, and greater budget execution oversight. The need for more managerial flexibility and delegation of authority from Congress in budget execution has been supported by critics of congressional defense budgeting and management for decades (Jones and Bixler, 1992; Gansler, 1989; Fox, 1988; Kanter, 1983, Augustine, 1983; Luttwak, 1982).

The DTA also proposed eliminating 100 reports to Congress and proposed eliminating the remaining reporting requirements after five years. In the acquisition area, the Selected Acquisition Reports would no longer be provided Congress. Congressmen Obey and Spratt (2003) argued these were critical to Congress and its agent GAO obtaining information to discharge its oversight responsibilities. In particular, they said that the Selected Acquisition Reports (SARs) provided information about cost overruns, technical failures and schedule delays in weapons development. The authors argued that the DTA as proposed resulted in an "…unprecedented reduction in Congressional oversight and

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accountability and in some cases unlimited increases in the powers of the Secretary of Defense." (Obey and Spratt, 2003: 2)

In conclusion, Representatives Obey and Spratt asked why Congress should, "…rush to overhaul an organization that has yet again demonstrated its ability to perform to the highest standards on the battlefield." (Obey and Spratt, 2003: 12) While Republicans generally supported the Wolfowitz DTA proposal, the argument went beyond party lines as serious questions were raised about the potential of the reforms to endanger congressional ability to fulfill its constitutionally mandated oversight role. History indicates that Congress moves slowly, or not at all, in delegating its prerogatives with respect to defense.

Because the 2001-2003 PPBES reforms were made without explicit congressional approval, we may ask what this means with respect to the desirability of further delegation of authority from Congress to DOD. From our view, the PPBES cycle timing changes were sensible given that new administrations rarely have the people in place or the insights necessary to put programs in place and prepare budget initiatives in the first year (the administration of Ronald Reagan is a notable exception). Thus, designating the first year for review of national security strategy and the work on the Quadrennial Defense Review sets the scene for a complete budget build in the second year. Designating the off years as years of minimal change, but allowing mechanisms for changes that do need to be made separately in program change proposals and budget change proposals also seems sensible and should cut down the turmoil involved in a complete POM-Budget rebuild each year. Therefore, we conclude that in this case, DOD change initiatives moved in the right direction without any supervision or oversight from Congress.

## CONCLUSIONS

With respect to long-range DOD planning in the first phase of PPBES, we may observe that during the 1990s it was clear that the shift from a Cold war mentality to a new framework was proceeding slowly. The gist of what was necessary in the post-Cold war world did not seem clear. Despite all the discussion of asymmetric threat and successive

preparation and reviews of the QDR, much of the defense budget seemed focused toward a Cold War scenario. Meanwhile the defense establishment was contracted by about 35% and U. S. forces were employed in a large number of small scale conflicts in the 1990's after the first Gulf War. Still, the precise nature of the threat was not clear; was our own activism a problem, were there really inimical forces out there, and if so, what was needed were all difficult questions. The terrorist attack of September 11, 2001 ended this period of doubt and confused reflection.

It is routinely acknowledged that the planning component has been the weakest part of PPBS for decades. Part of this is due to the contingent nature of threat assessment while other impediments include the sheer volume of information and absence of data coordination. In order for DOD to plan to counter threat effectively, it seems to us that a capabilities-based planning process within PPBES, rather than a theater-based approach, is one way to tear loose from the old bipolar geographic analyses that focused on the USSR, potential enemies in Asia or elsewhere. Instead, it is critical to ask what capabilities the U. S. needs to meet threats wherever they occur, especially given that the terrorist threat has a personal or group basis less geographically bound.

The deployment of U. S. forces since September 11, 2001 illustrates new concepts in joint operation, the use of Special Forces and the application of joint forces in unique ways, supported by traditional forces using traditional doctrines. Nonetheless, it is a new mix. Much of the transformation in military affairs that has been ongoing since the mid-1990s is driven by new threats that seem to emerge almost daily. All this points to the linkage between changes in military war fighting and PPBES planning.

It is obvious that important changes have been made in the DOD planning and budgeting process. The simultaneous execution of the POM and budget review and its consolidation into one data base is an important change. In the old system, a good POM could still be lost on the way to the final budget. In addition, sometimes the budget process ended up doing a lot or reprogramming and re-making of decisions that would have been better done in a POM exercise. For example, the 2003 POM process started by doing a pricing

review of the shipbuilding budget. This is a budget drill and in the old PPB system would have been done in the budget process long after the POM had been completed. Observers comment that when such drills (re-pricing the shipbuilding account for inflation etc.) result in a big bill that has to be paid, it is good to have that bill considered and paid up front at the beginning of the process in the POM where large dollar changes can be made more easily. They also felt that doing the POM and budget simultaneously should result in fewer surprises and less re-programming of changes to the POM in the budget process than there used to be. They felt that the process should be quicker, but less linear, a layered process rather than a sequential process. The routing of all products of the POM and the budget into one database was seen to be a significant move to help resolve some of this added complexity.

Secondly, the outcome focus of the process is an important change. Secretary Rumsfeld has emphasized outcomes and the Navy approach illustrates this concern in two ways. The procurement accounts are focused around the outcomes each weapon system bought will provide and the performance models for steaming hours and flying hours are also outcome focused. As has been stated above, this covers almost 90% of the Navy budget. Nevertheless, Congress still appropriates by line item and DOD has to be able to translate capabilities into budget items and make winning arguments for those translations. The fact is that budget lines (line-items) make it easy for Congress to buy things and what has not changed is where the power of the purse is located. In the words of one DOD budget player, "…there are a lot of changes, but what has not been changed is the Constitution. Changes will end when they bump into things that are Constitutional. The appropriation process is still a congressional process and changes in the pentagon process have to be responsive to the needs of Congress. The menu of changes the pentagon can pursue is not unlimited."

Thirdly, the new process put SECDEF into the process at the early stages, "in the driver's seat," in the words of one budgeteer. Decisions in the new PPBES are intended to reach the Secretary before the decision has become a foregone conclusion, while options are still open, and while important and large-scale changes can still be made. When SECDEF

inputs come at the end of the stream of decisions, some decisions that could be taken get pre-empted simply because they might cause too much breakage in other programs or because everyone has already become committed to the likely outcomes of the decision. Secretary Rumsfeld had a clear interest in transformation, but not all communities within the defense establishment were equally committed or committed at all to Rumsfeld's vision. As we have noted, inserting SECDEF in the decision process early stands up so long as history proves the decisions SECDEF make are right. While this is true whether SECDEF input is early or late, inserting SECDEF early in the PPBES process puts a larger burden of proof on SECDEF. Veteran observers see these changes as an evolving process, cautioning officers bound for the pentagon in a couple of years not to bother memorizing the new process until they get there since it has changed significantly since 2001 and will continue to change.

Lastly, the new emphasis on execution seems an important change, but it is too early to speculate on how this will turn out. It seems clear that no one wants to be viewed as decreasing military effectiveness in the name of saving dollars. Through 2003 a continuing theme of administration critics was that the U. S. was trying to do Iraq "on the cheap" with not enough troops and not enough of the right kind of troops. If the new emphasis on execution becomes a code word for efficiency and this is parsed into "doing things on the cheap," then the emphasis on execution will not have important or long lasting effects.

The 2003 budget process within DOD was dramatically changed. The 2003 process exemplifies incrementalism triumphant. Only changes to the POM and the budget were brought forward in 2003. This is a dramatic change from past. Aaron Wildavsky in developing the concept of incrementalism may have ignored defense, but DOD appears to have gone to school on Wildavsky. The result of the 2003 budget process is that unless a budget change proposal is explicitly approved, then a unit's budget is the same as it was the previous year; in Wildavsky's terms, the base is re-appropriated. Thus, if a unit does well in the on-year cycle (second and fourth year), it may carry some 'fat' through the off-years. This would seem to intensify the struggles during the on-year processes,

making the stakes higher. Success is rewarded for two years and failure is doubly penalized, i.e., remember to change in the off year, off-sets have to be offered up, so the only way to get better in the off-year is by giving up something else. In the off-year cycles, only changes to the base are explicitly considered, both in the Program Change Proposals for the POM (big dollar numbers, but fewer of them) and Budget Change Proposals for the budget (more, but smaller dollars). However, there is an interesting twist to this. Changes may come from anywhere someone has an issue, e.g. the military services, combatant commanders, and Assistant and Undersecretaries of Defense.
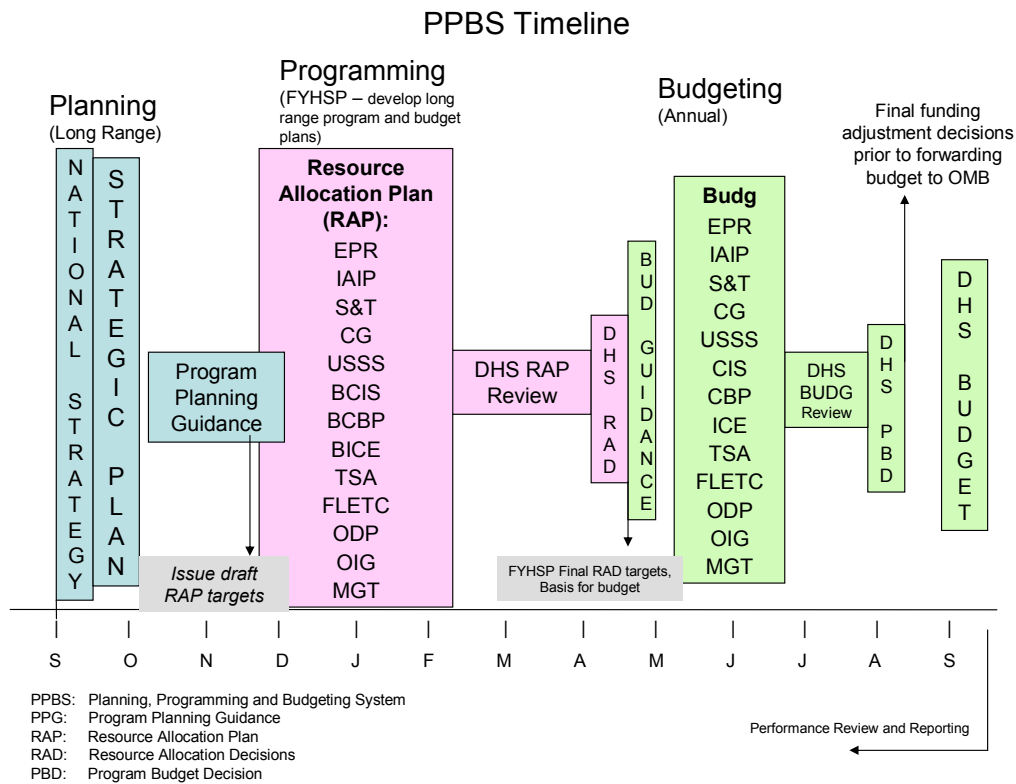
Budget processes normally focus around ownership. For example, the concept of a claimant or a budget submitting office identifies who will submit a budget. They alone control what goes into this submission. This new process seems to empower friends and neighbors to examine how a neighbor is managing his property and submit a program or budget change proposal if the neighbor is not doing the right things, by for example putting in a budget change for more frequent mowing of the lawn or a program change for construction of a two car garage. Suppose an Under Secretary of Defense believes the Army should provide more force protection to an Air Force base and submits a program change proposal to do so; since these must have offsets, who will be designated as billpayer is a good question. The Under Secretary is unlikely to have any money; thus Army might have to pay that bill or Air Force. No matter who is selected as the billpayer, they will have to make an adjustment to their budget, just as you would were a neighbor able to dictate that you have to paint your house more frequently and pay for it by decreasing your entertainment budget. Thus, this new system is incrementalism with enhanced pluralism. Disinterested neighbors with good ideas have the opportunity to insert them in other people's budgets. Some observers will say that some of this has always gone on, but now the process is formal and invitations have been extended to players at various levels within DOD. Then, during the second and fourth years of this new PPBES cycle, zero-based budgeting is invited, based on the Quadrennial Defense Review and the National Security Strategy. This seems like a scenario doomed to fail because complex organizations have difficulty in adapting to radically different routines, e. g. incremental and zero-based procedures. For DOD, it must be remembered that the

full year cycles are largely incremental also, given no dramatic change in the threat. This new process is likely to work most satisfactorily only at the top and only if top-level players are somewhat restrained about their intrusions into the domains of other players.

The lag time for full and satisfactory implementation of DOD-level macro changes in planning, programming and budgeting is probably two to four years, although many wrinkles will be worked out by the military departments after the first new cycle has been completed. However, it is understood by seasoned observers of such change that the solutions and new processes developed by the military departments will differ by service and therefore some degree of incompatibility between different service solutions is inevitable despite the intention of DOD decision makers to prevent this from happening. DOD prefers uniformity but this is not possible, and probably not desirable, given the highly differentiated resource management systems and processes used by the respective military departments and services.

## XI. Implications for DHS

We have spent some time discussing the history and present practice of PPB in DOD in order to arrive at a place where we can give voice to considerations and concerns for DHS as it moves forward with its PPB system. Below is a draft calendar for the DHS PPB system.

## PPBS Timeline

**Planning** (Long Range)

**Programming** (FYHSP – develop long range program and budget plans)

**Budgeting** (Annual)

Final funding adjustment decisions prior to forwarding budget to OMB

NATIONAL STRATEGY

STRATEGIC PLAN

Program Planning Guidance

**Resource Allocation Plan (RAP):**
EPR
IAIP
S&T
CG
USSS
BCIS
BCBP
BICE
TSA
FLETC
ODP
OIG
MGT

*Issue draft RAP targets*

DHS RAP Review

DHS RAD

BUD GUIDANCE

FYHSP Final RAD targets, Basis for budget

**Budg**
EPR
IAIP
S&T
CG
USSS
CIS
CBP
ICE
TSA
FLETC
ODP
OIG
MGT

DHS BUDG Review

DHS PBD

DHS BUDGET

| | | | | | | | | | | | | |
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| S | O | N | D | J | F | M | A | M | J | J | A | S |

PPBS: Planning, Programming and Budgeting System
PPG: Program Planning Guidance
RAP: Resource Allocation Plan
RAD: Resource Allocation Decisions
PBD: Program Budget Decision

Performance Review and Reporting

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In our opinion, the *adoption of PPB in DHS is exactly the right thing to do* because it forces a regular consideration of the future and planned resourcing to meet that future. No other budget system does that, in our opinion, so well. The hiker who keeps his eyes on the ground and keeps moving forward without consulting his map and his goal risks expending great amounts of energy without moving any closer to his goal. PPB provides both goals and waypoints for checking against those goals. Nonetheless, PPB is not an automatic system, nor is the budgeting environment for DHS simple. We now examine some of these complexities:

**1. The threat is asymmetrical, real, and a moving target**. Continual vigilance, evaluation, and evolution will be necessary. The organizational task is not simple, nor is the resourcing task. Continuous evaluation to respond to a changing environment will be necessary. There must be a strategy and part of that strategy must be to coordinate public

and private efforts**.** The terrorists of 9-11-2001 were able to achieve homeland destruction, unlike any other foe since the Civil War. It had severe repercussions for the airline industry and the stock market. The anthrax scares of 2001 interrupted the orderly operation of the post office and the daily business of Congress, if only for a short interval. These events indicated how vulnerable an open society is to demented enemies. This makes creating a threat-determining scenario more complex. It also emphasizes that a business as usual, reactive, incremental approach is not good enough.

Unfortunately, the pathway is not clear and critics do not agree. For example, Brookings (2002) made several recommendations about homeland security in 2002, some of which have come to pass and some of which have not. First Brookings suggested that a Department of Homeland Security was not necessary and might actually be a less effective choice given the administration involved and the fact that significant parts of the mission would still be outside such a department. Brookings then argued for a homeland security planning process much like that of the NSC in defense, where homeland security directives would be issued after being discussed at meetings chaired by the President. Other Brookings recommendations in this report included:

- Strengthening of the budgetary role of the homeland security director by the creation of a new, dual-hatted position: senior director of OHS for budget policy and associate director of OMB for homeland security.

- Creating a cadre of agency officials could be deployed to the location of a terrorist incident to work with state and local officials and coordinate the federal government's response.

- Establishing a Federal Border Agency to include the Coast Guard, the Customs Service, the enforcement arm of the Immigration and Naturalization Service (including the Border Patrol), the Agriculture Quarantine Inspection program, and probably the new Transportation Security Agency.

- Establishing under the Secretary of Defense, a new Northern Command to protect the homeland and a new post of under secretary for homeland security.

- Returning the National Guard to its traditional, primary responsibility of homeland defense.

- Establishing appropriations subcommittees in Congress for homeland security, and a joint committee to exercise broad oversight.

- Last and probably not least, the Homeland Security Council should be made a statutory agency in the Executive Office of the President, with its Director subject to Senate confirmation.

Almost all of these items were superceded by the creation of the Department of Homeland Security.  A northern command has been created in DOD and how it works out its mission with DHS will be an evolutionary process. Congress created appropriation subcommittees for Homeland Security and passed a separate appropriation bill for it in 2003 (HR2555, House Report 108-90, PL 108-90 on 10/01/03). The situation insofar as budget and authorizing committees are concerned is less clear.

Brookings also observed that there was a need to focus on coordination not only at the federal level but also at the state and local level and at the interface with the private sector, commenting that this effort has..." not gotten sufficient attention by state and local officials, by the private sector itself, and this reorganization effort needs to be paralleled with appropriate attention towards the state and local effort. Brookings also suggested that there was a parallel with defense strategy in the sense that defense was moving from the old geopolitical state-based framework to capabilities based strategizing in terms of what we would need to meet the threat wherever it might appear. In the Quadrennial Defense Review, Rumsfeld argued that we needed to move away from a threat-based approach to developing our national capabilities and our national military strategy to one that he called a capabilities-based approach. He argued that given the uncertainty about the nature of our adversaries and the nature of our threats and particularly with the rise of non-state actors and asymmetrical threats, that it was simply no longer possible to develop specific scenarios in which we could put in effect all our eggs in that basket. But rather we needed to think about the ranges of capabilities that we needed given the

uncertainty (O'Hanlon, 2002). This certainly applies to strategizing for homeland security.

## 2. The funding system is intergovernmental and frictions are inherent within it.

It is obvious that the federal government has to provide some money to state and local governments in critical areas. Most people seem agreed that money ought to go to first responders, but there is much less agreement on how that money gets to its targets. States are the logical middlemen, but some states have few people and miles of border while other states have large populations at risk, and a few states have both factors. In 2002 the first round of funding was distributed on the formula embedded in the USA Patriot Act passed in response to 9-11. This formula favored states as units and ended up giving more money to less populated states than to the more populated ones. Russakoff and Sanchez report (2003) that among the formula's authors was then-Senate Judiciary Chairman Patrick J. Leahy (D-Vt.), whose state gets more than six times as much money per capita as California under the formula. A spokesman for Leahy said smaller states need more money because their communities do not have large standing police forces to respond to emergencies. "Small states have security concerns, too," the spokesman said. "Protection of Vermont's northern border benefits the whole country. What if a terrorist got across and went to New York?"

It is also clear that wherever the legal burden for protecting borders is placed, in reality it is going to be a joint task. Some feel this is clearly a federal, but it is also clear that state's have a responsibility to do their share, if no more than provide additional manpower in times of crisis. Not surprisingly, state Governors would like to see the federal government pick up the cost of all homeland security expenses. In February 2003, at their winter meeting they voted unanimously to include homeland security -- along with Medicaid, special education and Bush's No Child Left Behind schools initiative -- as an "unfunded mandate" on states with which they need more federal help. No one doubts that the needs here are large, ranging from equipping firefighters with protective suits to constructing big-city emergency operations centers to providing U.S. ports with adequate security fences, the street-level demands of protecting U.S. citizens and infrastructure desperately require federal attention. Russakoff and Sanchez (2003) argue that local

officials believe the main problem is money, not identification of what needs to be done, and worry that state and federal deficits and pressing defense needs will limit the amount of federal money which can be directed toward defense. As a result, experts worry that spending may not keep up with the threat. "If you ask, is the government spending money to keep pace with the threats, then the answer is no," said Stephen Flynn, who heads the Council on Foreign Relations' research on homeland defense. "When it comes to moving resources, this just doesn't feel like Pearl Harbor. . . . We're in a war, for God's sake, and we're a rich country."  The needs seem obvious and meritorious. For example, in Yuma County, Ariz., home to two U.S. military bases, Sheriff Ralph E. Ogden said the most pressing need is a multimillion-dollar radio system that would allow federal, state and local officials to communicate in an emergency. "We probably have 50 police or law enforcement agencies within 60 miles of where I'm sitting right now, and very few of us can talk to each other," Ogden said. J.R. Thomas, director of emergency management for Franklin County, Ohio, which includes Columbus, said federal funds are needed to buy 1,500 respirators for police officers and radiation detectors that will allow firefighters to determine whether they are responding to a "dirty bomb" or some other radioactive emission. Yet while the need is obvious, what to buy is not. For example local officials need federal advice on buying such high-tech equipment, according to Thomas, recalling the county's recent purchase of a device to detect biological agents: "It just wasn't any good. We don't have the expertise to be able to tell one piece of detection equipment from another. We're relying either on salespeople or word of mouth from other jurisdictions." Thus DHS will have to provide money and guidance about what to buy.  And for those who think that this can be an off the shelf purchase because homeland security involves known and readily available technologies, it is useful to remember that part of meeting the threat will involve detecting subtle biological and chemical agents. It is possible that developing such equipment could take years, as does fielding a complex piece of defense equipment, in a process that has a life of its own. Moreover, in this process of equipping the lower levels of government, there will always be leakage. For example, in Salt Lake City, emergency manager Michael Stever said the city's biggest need is a state-of-the-art emergency communications operations center that could survive an attack. "Right now, we use regular old conference rooms where we add telephones," he said. The first round

of federal money to build emergency operations centers yielded $50,000 for Utah, Stever said. "We didn't see a dime," he said. Only 3 percent of local health departments surveyed by the National Association of County and City Health Officials last month said they were "fully prepared" for a bioterrorism emergency. U.S. port authorities say their operations are also woefully underfunded. Last month, the Coast Guard released a study on the security requirements of every major U.S. port, concluding that they need $1 billion in the first year and $500 million annually for the next nine years. The nation's ports have received $318 million in federal counterterrorism funds since Sept. 11, 2001. Huge gantry cranes and warehouses at U.S. ports are typically guarded by minimally trained private security squads, and the public often can mingle with stevedores. Many ports, such as the ones in Los Angeles and Long Beach, are interspersed with yacht clubs, condo complexes, seafood restaurants, fishing harbors and the like. Last year, the port of Los Angeles applied for $53 million in federal security funds but received $1.5 million, which it had to split with Long Beach. Experts say a major terrorist strike at the Los Angeles-Long Beach port complex could be more economically catastrophic than an attack on almost any other target in the country. While security experts say the government needs to play a larger role in drawing up security standards and funding upgrades in protection at some of the nation's private industrial operations, such as trucking firms, natural gas pipelines, electrical grids, water systems and nuclear and chemical plants, federal officials have warned against expecting such money anytime soon.

No one should expect the argument around "what is a fair share?" to be simple or easily solved. Determining the appropriate federal share is "one of the thorniest questions we are going to face," said House Homeland Security Appropriations subcommittee chairman Harold Rogers (R-Ky.). Just how thorny was clear in the initial round of Homeland Security grants released this year – about $600 million nationally. Despite a concentration of likely terror targets in population centers, smaller states received much more money per capita than large ones, with California and New York running last. California received $1.33 per person and New York $1.38, while Wyoming got $9.78, Vermont, $8.15 and Alaska, $7.97. The national average was $3.29. (The study was done

by New York City and compared the largest states with the smallest; it did not include Maryland or Virginia.)

**Unusual frictions are to be expected.** When the federal government raises the alert status, states and local governments respond by putting more police and fire on the street or on alert. To do this they must pay more overtime or compensatory time. This is a real cost to them. If alerts to a higher status become more frequent, localities may respond with less than the optimal amount of protection, because providing the full amount is expensive and besides nothing happened last time. This is not a recipe for a good outcome. The current fiscal crisis has taken its toll on homeland security provision. A survey by the Boston Globe in the spring of 2003 found that the 10 largest police departments in Massachusetts have 424 fewer officers than they did a year ago and will lose at least 50 more by July 1 as a result of state budget cuts in local aid. The state has received its allotted $11.7 million in homeland security grants, but Gov. Mitt Romney (R) and other state officials estimate their costs at almost five times that amount. As can be seen here, the federal government in 2003 did not provide full cost coverage.

**3. The new department is more complex than old DOD: a department out of 22 separate agencies and 180,000 civil servants.** Some lessons from DOD will not fit, in some ways, to deter or to destroy is much simpler than to investigate and protect. It has already been seen that DHS's activities are very diverse, from enforcement to research to implementation[7]:

**4. Other departments still have major responsibilities....and they may underperform**
Many of the country's most prominent national monuments and parks lack adequate defenses against terrorism, according to the Department of Interior's Inspector General Earl E. Devaney who criticizes the National Park Service for "lackadaisical" security

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[7]    Homeland Security Boosts Funds on Antimissile Plan: $100 Million Aimed at Protecting Jetliners Electronically By John Mintz, Washington Post Staff Writer Friday, September 19, 2003; Page A04
The Department of Homeland Security will spend $100 million, more than initially planned, to explore the feasibility of outfitting commercial jetliners with electronic devices that would protect the aircraft from missiles fired by terrorists on the ground

procedures, ineffective patrols and staffing, and a "nonchalance" among some officials who do not accept the potential threat.

"The National Park Service has failed to successfully adapt its mission and priorities to reflect its new security responsibilities and commitment to the enhanced protection of our nation's most treasured monuments and memorials from terrorism," according to the 24-page IG report (Lee, 2003).

**5. Definition of anti-terror mission is still evolving and mixed in with other criminal justice missions.** Unlike external defense, homeland security seems a more complex task which may overlap in some instances what might be considered public safety from criminal behavior, a task primarily given to local governments and circumscribed by constitutional and legal guarantees such as due process. The strategic planners will have to map their issues carefully here (Eggen, 2003).

**6. The lack of inter-agency cooperation could decrease program effectiveness**, even if the rivalry is not as bad as that of Army and Navy in the post WWII period. For example, Schmidt and Farah (2003) reported that bureaucratic infighting between the FBI and the Department of Homeland Security was hampering progress in the largest investigation of suspected terrorism financing in the United States, according to federal law enforcement sources. The FBI was given jurisdiction over all terrorism financing investigations in March, when the Customs Service became part of the newly created Department of Homeland Security. It has since moved to take over the sprawling investigation of an interlocking network of Northern Virginia-based charities and businesses that are suspected of funneling millions of dollars to al Qaeda and other Middle Eastern terrorist organizations.

But the Homeland Security agents who developed the case have been reluctant to give up the investigation, and the FBI's involvement in the probe has been slowed, officials with both agencies said.

Both sides acknowledged the difficulty of transferring authority for a complex financial investigation that had been underway for a year and a half. The FBI was given primacy in

terrorism financing investigations under a written agreement reached earlier this year by Attorney General John D. Ashcroft and Homeland Security Secretary Tom Ridge.

FBI officials have complained about the difficulty gaining entree into an investigation that could touch on other cases in many jurisdictions. Homeland Security officials say the FBI is smarting at not getting credit for victories in an investigation it previously showed little interest in pursuing. Inter agency co-ordination problems are a fact of life in federal government programs. Undoubtedly these will be worked out over time.

**7. There is no blank check for HS and disagreement exists about how much is enough, just as in defense.**

While there is a mandate from the public to pay for homeland security, Congress no longer interprets this as a blank check. Moreover, homeland security issues are not exempt from politics as usual. In WWII, the military had a blank check. In VN, supplementals were submitted and financed for the cost of the war as it was being conducted each year, with victory being assumed at the end of each year. From 1945 to 1965 foreign policy and defense were basically bi-partisan issues. There were party positions, but they were closely aligned and policy was supported by most of both parties. Consensus existed. The operational definition of consensus on homeland security is still evolving in 2003. Helen Dewar (Dewar, 2003; Mintz,2003) observed that funding battles for DHS during the summer of 2003 were largely determined on a party line basis, with the Democrats arguing that not enough is being spent for homeland security and the Republicans responding that it is not good business just to throw money at the problem. Thus Senator Byrd's proposal which sought to add $602 million for transit security; $729.5 million for police, firefighters and "first responders"; $238.5 million for border protections; $100 million to safeguard air cargo; and $80 million to protect chemical facilities was defeated.

Sen. Thad Cochran (R-Miss.), chairman of the new appropriations subcommittee for homeland security, noted that there was "no end to the list of ways we could spend additional funds on homeland security," and suggested that Congress has already pumped billions of dollars into security programs. He said spending is constrained by allocations

imposed by the budget that Congress approved earlier in the year and, in many cases, by practical limits on how much can be spent in a year (Dewar, 2003). Thus just as is true with defense, politics are going to play in DHS decisions, why should any other outcome be expected? This comment does make the point that HS is now a part of the budget resolution process and as such it will follow the relatively disciplined rhythms of the congressional budget process.

**8. Layered structure of fiscal federalism creates potential leaks for funding programs targeting specific levels of governments**; money channeled through states for subordinate levels of government is subjected to "taxes." Operationally, this happens in DOD and Congress has used such vehicles as fences, floors, and ceilings to ensure that money gets to where Congress intended it to go. This is a complex relationship, and a coalition of big city mayors has already suggested an alternative pattern for passing funds through by suggesting that Congress give them the money directly, rather than let it leak away to taxes and withholds. Speaking for a coalition of Mayors, Louisville Mayor Jerry Abramson urged federal officials today to bypass state governments and give them the money they need to beef up homeland security. "I'm not asking for a handout, I'm asking for a partnership," Louisville Mayor Jerry Abramson (AP, 2003) told Undersecretary of Homeland Security Michael D. Brown at the U.S. Conference of Mayors. Brown responded that the federal government did not want to break up partnerships it had forged over the years with state governments through agencies such as the Federal Emergency Management Agency, which handles natural disasters. However, he did note that Congress had recently ordered 80 percent of the funding for homeland security projects to go to first responders in cities and counties, and limited to 20 percent the amount state governments can keep. Mayors had complained that states were skimming federal money for prevention, while they need it to equip and train police and firefighters who treat casualties. Abramson said that in the first round of homeland security funding, Kentucky received $9 million and only $200,000 went to his city. "We have 20 percent of the state's population and yet we got just 2 percent of the money. You don't need to tell me that's wrong." (AP, 2003)

**11. Major risks exist**

Despite this seemingly endless argumentation between Republicans and Democrats, cities, states, Congress and the Department of Homeland Security, everyone is aware that major threats exist and the U. S. has vulnerabilities. For example, Ceci Connolly (2003) reports that the nation's public health laboratories are "dangerously unprepared" for a chemical attack, according to a state-by-state analysis released yesterday and the vast majority of labs do not have the equipment or expertise to identify a wide range of potential chemical weapons, including ricin, cyanide, sarin, VX and most pesticides, the nonprofit, nonpartisan Trust for America's Health reported. "This is a huge area of vulnerability," said Shelley Hearne, the group's executive director. "There has not been an aggressive response to fill this gap." Connolly adds that nearly 18 months ago, the Department of Health and Human Services identified chemical testing as one of seven priorities for state health departments. But little progress has been made, officials concede, in large measure because bioterrorism projects overshadowed all other preparedness work.

"If we have to respond to a chemical terrorism event, it will be a train wreck," said Scott Becker, executive director of the Association of Public Health Laboratories. "We don't have a national plan or testing methods or a lead agency for many of the laboratory activities that will be needed when a crisis occurs."

Connolly notes that not a single state lab has the capability to test for many of the most common -- and most hazardous -- chemicals, such as phosgene, a poison that can cause severe lung damage, and arsine, a gas that when inhaled can lead to permanent organ damage and death. Only two states, Georgia and Iowa, have the equipment and expertise to test for cyanide, although the highly toxic compound is commercially available or naturally found in 41 states. Only eight states have drafted plans for responding to a chemical attack. HHS and the Environmental Protection Agency have yet to resolve a dispute over which department has ultimate responsibility for chemical testing.

"We know we need to develop this capacity," said Joseph Henderson, associate director for bioterrorism at the Centers for Disease Control and Prevention. "It's just not that simple."

He said that the proper lab equipment is expensive and that chemical testing requires extensive training. This year, the CDC intends to allow states to use portions of their federal grants for chemical lab expansion if they choose.

The ability to rapidly detect and identify chemical agents in an emergency "can mean the difference between life and death," the report noted, citing the intentional gassing of hostages in a Moscow theater in 2002. As victims flooded into the hospitals, physicians with no information about the nature of the substance had difficulty treating them.

Unlike the explosion of a bomb, chemical warfare can be surreptitious. Many of the 60 chemical agents on the CDC threat list are invisible, odorless and can take hours or days to cause harm warns Connolly.

**12. The relationship between DHS and DOD is not necessarily complementary.** HS can diminish DOD capabilities, v-a-v National Guard. The US defense posture has been built for the last 50 years with the Reserves and the National Guard fulfilling specific roles. In the last decade with the downsizing of DOD, this relationship has become more important. DOD depends on Guard and Reserve troops to flesh out both combat and support needs. Conversely, the Guard particularly has had an important role in helping with various state disaster remediations. In general, local fire and rescue and police who are going to be on the scene of a chemical or conventional attack first. The National Guard may come in later to manage an emergency situation if a city has been largely destroyed. O'Hanlon says: "I don't think we want to take the National Guard or Reserve in general out of the overseas defense mission, but I think that many of the combat brigades and divisions of the current National Guard are not really all that important for the overseas warfighting plan ...Again I don't think it means buying top tier, biological weapons protection capability for all 300,000 people in the National Guard. That's the kind of expenditure that I would not support. But if what it means is that some of the training may be another day a year at the margin, goes into this kind of mission, or if you think about where you base these people as you downsize, you make sure that you keep a certain geographic distribution so you have rapid response capability to the extent possible, those sorts of relatively modest but still important considerations may enter in." (O'Hanlon, 2002)

News reports of November 5th 2003 said that Guard and Reserve units in Iraq did not have kevlar vests and that their humvees had plastic doors, insufficient to protect troops in a combat zone. It is clear that if Guard and Reserve are going to be part of the A team, they need to have A team equipment. While this section has examined the challenges at hand to suggest that this is a difficulty business, DHS has already taken important steps.

## XII. Significant Progress Made

Bruce Carnes, the DHS' chief financial officer (CFO) indicated that DHS had made substantial progress in the last year. He stated that DHS was consolidating bank card programs from 27 to three; creating a review board to evaluate acquisitions above $ 5 million; initiating a five-year budget and planning program, and establishing a budget process modeled on the Defense Department's Program Objectives Memorandum. These are all significant and laudable steps forward.

Carnes elaborated on these issues before the Select House Committee on Homeland Security on October 8 2003, "In March 2003, we successfully transferred more than $50 billion in assets, $36 billion in liabilities, and more than 180,000 employees to the Department. Within a few weeks, we created the financial structures and support systems necessary to support these transfers. This was accomplished with only handful of staff -- a remarkable achievement of which we are proud.

"We have also launched a consolidated bankcard program that will reduce the number of programs within the Department from 27 to three, created an investment review board to evaluate acquisitions above $5 million, initiated a five-year budget and planning program, established a budget process modeled after the Department of Defense's Program Objectives Memorandum process, launched a consolidated business and financial management systems program, and created a Program Analysis and Evaluation

organization charged with leading the Department's program evaluation effort and ensuring compliance with performance and accountability requirements."[8]

Carnes indicated the some of the complexity in bringing together elements from so many separate departments, saying, "Currently, the Department has 22 disparate financial processes. Several of these were established through memorandums of understanding with the Department's legacy agencies. Using these processes helped ensure sufficient financial support services were available when the Department was first established. However, they are labor- intensive and cumbersome to manage. Beginning October 1, 2003, we consolidated the number of processes from 22 to 10 - primarily by terminating the memorandums of understanding with legacy agencies and by shifting the workload to in-house financial support service units.

This is only a good start. In FY 2004, we will consider options to further streamline the financial processes used by the Department with the goal of enhancing efficiency, reducing costs, and improving the quality of financial data."

Multiple and Redundant Financial Systems were other obstacles that had to be overcome. Carnes noted that the Department has 83 financial management systems, few of which were integrated. Some were outdated, lacked functionality, and were expensive to operate and maintain. J. Richard Berman of the DHS inspector general's office observed that the department had inherited "18 material weaknesses" from the 22 agencies that combined to form the DHS. Those weaknesses included a lack of policies and procedures to effectively monitor contractor costs and performance at the Transportation Security Administration (TSA), leaving TSA "vulnerable to inflated labor rates and other inappropriate charges (Doyle, 2003)." To tackle problems such as these, DHS launched an aggressive program to transform the Department's business and financial management policies, processes, and systems. Carnes noted:

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[8] All of the testimony provided by Bruce Carnes in this section is from that given to the Select House Committee on Homeland Security on October 8th, 2003.

"One of the first actions I took as the Department's Chief Financial Officer was to establish a Program Analysis and Evaluation (PA&E) Office and to recruit a highly experienced director to the lead organization. PA&E's primary responsibilities include: designing and managing the Department's Planning, Programming and Budgeting System; managing the development of the Future Years Homeland Security Program; coordinating the development of the Department's strategic plan; ensuring the Department meets performance-based budgeting requirements; managing the Department's Investment Review Process; and preparing the Department's Annual Performance Plan and the program and performance section of the annual Performance and Accountability Report."(Carnes, 2003).

Carnes added that the PPB system was being modeled after the Department of Defense's system and will include as an integral component guidance for establishing goals and performance measures which reflect program missions and assess desired outcomes. The PPBS will be the basis for developing the Department's first Future Years Homeland Security Program, which will be submitted to Congress in accordance with the provisions of the Homeland Security Act. Strategic Plan: "We have made substantial progress on the Department's first strategic plan and expect to transmit a draft to Congress for review in early November. In the area of investment review, since May 2003, our Investment Review Board has evaluated approximately ten percent of the Department's major acquisitions (over $50 million) and will increase its efforts over the coming months. Under the leadership of the Deputy Secretary, the Department launched a comprehensive effort to develop measures of effectiveness to help assess performance and make more informed resource allocation and budget decisions. Finally, we are on track to issue on time the Department's first Annual Performance Plan, which will include rigorous performance measures for each of the Department's organizational elements. We will also publish the Department's first Performance and Accountability Report in January 2004."
In relation to CFO Act: Carnes said that the Department complied with the provisions of the Chief Financial Officers Act of 1990 and will continue to do so.

## XIII. Lessons learned from DOD PPB

In the fall of 2002 it was not clear what kind of a budget process DHS would have. Subsequently DHS has chosen a PPB process (See appendix A). Based on DOD's 40 year history with PPB, we can suggest that it is:

1. A people and time intensive system

2. Good on planning

3. A system at cross-purposes with way Congress appropriates dollars, thus the outcomes of the PPB process need to be translated into appropriation formats.

 4. A system dominated by personnel and procurement of weapons. Personnel levels have been set by external events for a long time. There is a top line number for personnel and the defense budget does not get into the routine budgetary game of asking for more people; it does actively manage its personnel category to hit accession and retention goals and this is often connected to resources for items such as bonuses and improved medical care. DOD basically has had a top boundary for personnel. This boundary has been both a ceiling and a floor, can not go beyond, but can fill up to, stay above...thus it is also a guarantee of positions. DHS will probably have no such boundary. In procurement, DOD spends a significant portion of budget on R&DTE. As terrorists figure out new ways to attack US, DHS probably will spend lots on R&D. What the correct percentage is for this category is unknowable. Casual empiricism suggests that the percentage has to be high enough to stay just ahead one's opponent, but not be so lavish that many systems are started, but few are finished. Navy or that the final inventory is so rich that it can not be afforded. Historically this has averaged around 13% for defense. HS procurement may not be cheap particularly in the chem/bio detection and monitoring areas. The expense will be compounded by decisions about where equipment is needed. DHS will also need to be able to give advice to state and local governments about what off-the-shelf technology to buy, so that some interoperability is maintained and so states and local governments get the most for their money. Buying systems in DOD is heavily political because of geographic distribution of suppliers. Congress likes to play in this game. This will probably not be a factor in the early days of DHS, particularly for currently available technology as one must buy technology where technology exits. However, Congressmen

could well besiege DHS and appropriators and to include updated (and expensive) equipment for their state or district, arguing that any particular spot may be the weak link that brings on calamity.

5. Planning and programming thoughts: DOD gets input to planning process from stable set of actors, intelligence sources DIA, CIA, national military strategy, State Department, treaties, behavior of allies. National Security leads into National Military Strategy for DOD. These elements are either not in place for DHS or not clearly articulated. SECDEF issues Defense Planning Guidance on an annual basis (up to 2002) to guide preparation of the defense budget, but this may be seen as a marginal adjustment to threat guidance combined with a fiscal appraisal for the budget year (match inflation, inflation plus, less than inflation, total increase of x%). The critical documents are the national security strategy and the National military strategy....who will develop them and who has the responsibility and capacity to budget for them. For DHS, the relationship to state and local governments, where impact of events may have first occurrence is important, but how to put this into budget process is difficult, including such questions as what should be the relative shares in programs, what is the unmet need, in which programs should DHS lead, in which follow, and when it is a leader, what does it contribute: money, advice, criticism, intelligence, hectoring, legal mandates. When it follows, what should it contribute: money for supporting functions, e.g. planning and analysis? How should it judge local dollar needs as adequate or too abundant, given that localities will chose to provide different levels of local DHS and that localities even when they do their best may under provide DHS because they do not have fiscal  wherewithal? Should DHS make up for local financial disparities, and if so to what extent and how...e.g. earmarked money for functions, general grants, matching grants. In defense, treaties have the force of law, but how will relationships to state and local governments be structured? Will DHS be a steady provider of dollars or will funds fall out of the sky on a seemingly random basis as needs that have been there all along are suddenly discovered.

Programming buys force structure...describes the who, what, why and when of a function. Budgeting in this system tends to be a pricing and timing for the budget year function. Programming maintains the FYDP; budgeting buys the FYDP for the current year.

Programming works better when centralized, but centralization risks failing to integrate the needs of field functions. Programming must also be done in time to guide the budgetmakers. This is not as easy as it sounds. Nonetheless, recent experience with the DOD PPB experience has proven its value. With the fall of the Berlin wall and the end of the Cold war, DOD needed a new threat synthesis. Eventually this was produced, focused around a base force concept. While some of this thinking was done outside the PPB process, much was done inside and the outcomes helped shape US military posture from 1991 through 2001. The PPB mechanism kept this vision constant in the planning and budgeting process. Thus military leaders had guidance about what had to be done. The base force concept suggested that the Cold war world was gone and now the world would be more complex as bi-polar rigidity turned to multi-polar complexity; predictability turned to uncertainty; communism gave way to ethnic/religious conflicts; fixed alliances gave way to ad hoc coalitions/alliances; known adversaries were replaced by ambiguous threats, and based on the first Iraq war, an inactive UN would be replaced by an Active UN.  The risk of conflict would be higher, the level of conflict smaller scale, weapons technology would favor high tech systems; US forward presence would be high; roles and functions would be joint, and fiscal expectations were for a decreasing budget. Generally, all of these conditions came to pass, although in different ways. This base force concept saw the military reduced by about one-third and budgets reduced or flat until about 1998. Obvious costly missions were financed by supplemental bills. The base force concept led to a series of planning documents for each military department. The Navy's document stressed such concepts as manning the reduced force with high quality, well-trained personnel, jointness, and maintaining readiness. These principals held up during the decade of the 1990's.  Since HS is basically a threat-based budget, a PPB system should work well for DHS.

**Getting along with Congress**
When the focus changes to Congress, it becomes clear that budgeting is a shared power, between the executive and legislative branches: the executive proposes, and Congress

disposes. Based on aggregate analysis, Congress appears to make marginal changes. It may change 5% of a budget, but if your program is in that 5%, an incremental change in general may be a quantum change in particular. In defense, the threat drives the budget. The maxim for DOD leaders is "You fight the force someone else built and you buy the force someone else will fight." They believe that Defense is a multiyear stream of resources and commitments where resources are constrained and their job is to maintain the shape and effectiveness of the force over time, notwithstanding budget hits in any one year. DHS will be like and unlike defense: like in threat based scenario, complex, asynchronous, driven by individuals and groups representing a viewpoint but not a state, supported by terrorist states: threat visibility may be less clear, until it happens; who to punish may be difficult to see and even if seen, convincing others to take action may be difficult. Era of pre-emptive war: Afghanistan, battle against a group; Iraq, battle against a state. Going forward road may be less clear. Defense budget built on a "deter or win" basis; a good budget allows you to win, a better budget deters the other state, but maybe not in a world of terrorists.

Inevitably, some part of the homeland security budget is going to consist of money given to state and local governments; how to distribute this is going to be a problem and arguments are going to arise about this because differences in need, and equity is going to be hard to define. While the economy is slowing absorbing the collapse of the NASDAQ bubble, state finances are in flux. For example, California is facing a 30% revenue gap on its general fund. In 2002 some 40 states also faced substantial deficits. The metrics of state and local budgets tend to mean that after libraries and parks are cut, and 'frills' trimmed out of the education and welfare programs it is only the hard core health, welfare, education and police and fire, the first responders in HS that remain. In this scenario, there is a very real possibility that new money to states may not increase amount of homeland security, as states, knowing they are going to get HS dollars, underprovide current dollars for HS, giving them to education, for example, and counting on federal dollars to make up the difference to bring HS programs back to the level they were at previously, or less. As a result, the true need for HS may be underprovided. It is also inevitable that different states will provide different models of homeland security. Location, population characteristics and perceived vulnerabilities probably mean that

Iowa will administer programs and dollars differently than California, Des Moines differently than San Francisco. Different needs compromised by tendency to do equitable sharing of money, thus for the federal government there is a tension between fair share where everybody gets something vs most at risk get all. What the metric is going to be is unclear, other than that everyone will get something and some may get a lot more. The executive branch is likely to prioritize in order of who needs it worst, while Congress is likely to favor an approach where everyone gets something, with some few getting more than others.

**Comparisons: DHS and Defense Budgeting**

They are threat driven budgets, but the threats are different. DHS may be more complex in that civilian populations are threatened with destruction for no reasonable end. Elements within both budgets can use traditional budgeting methodologies like price changes and workload drivers, (Defense Logistics Agency in DOD; Customs, INS in DHS), but the real driver is the threat. However, the threat is amorphous. For DOD, the threat was fairly clear from 1948 – 1989 with Cold War paradigm, but even so that resulted in tangential hot wars, some of which might not have been as closely related to the main threat as it seemed at the time. Now DOD threat is smaller scale, but ambiguous and asymmetrical. DHS threat is small scale compared to nuclear war, but events that are nationally small scale could have disastrous and wide-spread impacts on localities and regions, e.g. bombing a nuclear power plant and spreading radioactivity, destruction of Golden Gate Bridge, anthrax in the post office or poison in a water system. All are possible threats. Boundary between DOD and DHS is external vs internal, but each has an interest in the other's domain and information and task co-ordination will be important, e.g. in the cases of the Coast Guard (Homeland Protector but a part of sea-power in wartime) and National Guard and Reserves, commonly used in domestic emergencies but integral to the Iraq deployment in this era of a downsized military. Managing the border between DOD and DHS will be important.

No one can say how much money is enough in these areas.

Both can make legitimate claims to be underfunded. DOD has a procurement gap (recapitalization) for ships and planes that still exists, but lacking an enemy proficient in

modern ships and planes, there is little likelihood that DOD will be given the money to recapitalize. DHS is underfunded in two different ways. At the federal level, DHS appears to have been understaffed when it was created, at least from newspaper reports, and some employees chose not to transfer to DHS when they had a chance because there was less job risk in their old department, thus some DHS elements started out smaller than planned. DHS also underfunded because many of the first responders are at the local level and there is no national standard for preparedness in training and equipment and because opinions differ as to what formula should be used to apportion money that goes to localities, e.g. people to protect, miles of border to guard, salient national targets in jurisdiction, e.g. Three Mile Island, Brooklyn Bridge etc.

In both areas there is an assumption that some risk will have to be chanced.

In both DOD and DHS, good intelligence correctly interpreted and decisively implemented will be critical to success, perhaps more critical than having the perfect suite of tools at hand. Timely intelligence information (INTEL) allows the luxury of choosing various means of defeating the enemy. It is highly likely that INTEL funding will be under-provided because it too is an amorphous good, until something goes wrong. Moreover, both DOD and DHS split intel gathering and interpreting with other organizations, thus even if total spent is enough, coordination and command and control of disparate organizations "tax" the intel function and less is provided than could be. Moreover, the danger exists that what is decisive and actionable intel to one party in the system may be treated as "noise" by another. While there seems to be a common sense case for spending for intel, in practice it is a hard sell.

DOD was not set up in a day. Despite Truman's concept of a national defense department, an intelligence function and a national security advisory body, what we now see as DOD, CIA, and NSC, these did not spring full blown into being. A powerful President with a clear concept in mind acting at the close of a successful war could not pull these together. It took some time and two laws to accomplish. By the time it was finally set up, the Iron Curtain had descended and the U. S. was involved with Korea.

The lesson for DHS is that too may take some time to get right. It is also worth noting that fine-tuning the organizational patterns did not prevent the U. S. from meeting the challenges that were thrust upon us, e.g. creation of the Marshall plan and responding in

Korea. DHS advocates ought not to worry that they need to get organization right. The defense budget system that seems so familiar now, did not spring fully articulated into being with the creation of the department, not in 1947, nor 1949. In fact, the actual system was fully articulated with McNamara in the 1960's, more than a decade after the creation of DOD and substantially amended by Goldwater-Nichols in 1986.

## XIV. Advice in Going Forward

When this research was begun, the shape of the DHS budget function was unclear, but in the last year the Department of Homeland Security has taken giant steps. The first step was taken by creating and filling the position of CFO, pursuant to the CFO Act of 1990. The new CFO, Bruce Carnes, then took a major step. He established an office of Program Analysis and Evaluation and filled it with a highly capable and experienced Director, Richard Williams. Under his direction PA&E will design and manage DHS's PPB system and design and manage DHS's Future Years Homeland Security Program, the single database that captures plans and fiscal desires for five to seven years in the future. PA&E will also manage DHS's responses to strategic planning as called for by the GPRA of 1994 as implemented by OMB. DHS's first strategic plan was to be submitted to Congress in November of 2003. (Carnes, 2003)

These are important and good first steps. It seems to us that DHS is on the right track to fulfill its budgetary mission. We would like to offer some additional behavioral suggestions, based on some decades of research in defense and non-defense budgeting.

1. Remember incrementalism: as an outcome and as a decision strategy; use rational tools and procedures, but remember the value of incremental patterns: they keep what is good about the present solution. Many year to year routines in PPB are incremental.

2. Remember roles: reviewers cut; agencies are aggressors....whenever someone gets too far away from the mean (trend line), the next reviewer will probably limit the distance (by cutting or adding)...whichever reverts toward the mean.

3. Do the right thing: ask for what is necessary: don't settle for less, don't be afraid to be aggressive when it is warranted just because you know the outcome may be incremental

4. Be careful of non-starters: It is OK to raise consciousness, but first you have to work the issue, talk it around. If you introduce big changes cold; you will almost certainly lose and if it is seen as a wild idea, it might undermine others' trust in you and hence threaten other parts of your budget. Numbers 3 and 4 are somewhat contradictory.

5. Remember the budget is a stream of resources and can take a hit in any one year; yet players have to avoid being zeroed out or taken off the table (taken out of the future years' defense plan (FYDP) in year three with a promise to be put it back in the FYDP in year five. This probably won't happen and your program will be competing will all those other programs that did not make it into the budget.

6. Remember that much analysis has multi-year patterns...this year, last year, over the duration of the future years' homeland security plan (FYHSP). Lowest year in a five year profile may be used as base point because you survived and nothing appeared to be hurt. Thus when cuts hurt, you need to show the pain. Defense does this by stopping something that really matters, e.g. flying aircraft or steaming ships. DOD is permeated by a 'can do attitude, but this is probably not a good budget strategy. Miracles can be accomplished in the short run without much in the way of funding, but continued commitment takes money. Moreover, if the personnel or equipment base is low, money might be necessary right from the start. Many of DHS's bureaus were paper processors, customs, INS, and their first response might be to process more paper, which could be directly contrary to what might need to be done.

7. Be nimble, but careful. When the threat changes, upsize quickly, but downsize carefully. Err on the side of safety: in 1990, some people said that DOD planners should look to where DOD was likely to be in 1998 and cut to fit that model in 1990, (from 17 to 12 aircraft carriers, for example) and use the excess funds accumulated as these vertical cuts were made to fix things that DOD would not have funds for in 1998 e. g. pier

maintenance, renovation. This seems like a smart idea, but it was not one which took hold. This was an argument for vertical cuts, but decision-makers tend to prefer horizontal cuts, perhaps because it preserves options.

8. Representation vs misrepresentation: everyone has a representational task. Needs, wants, and wishes are a good way to think about it. When you begin to argue to loudly for wishes, you enter the misrepresentation zone.

9. Do not be over-impressed by business logic. Government is not a business and good business patterns do not necessarily transfer or translate into good government patterns. Much of what is awkward about government has to do with checks and balances, and producing effective programs with due process procedures that support equality of treatment before the law. Much of the intrusiveness and seeming over-control of Congress is just Congress doing its rightful job. Some is not; some is indeed unnecessary oversight, just as some government financial management practices lead to inefficiency, misuse, and waste.

10. There is no one rule which encompasses all situations. Follow patterns which have worked before, and when new situations arise, try to think them through in respect to best responses. Depart slowly from the tried and true, but do depart when it is appropriate.

**Appendix A: Highlights of Proposal**

February 4, 2002

## The President's Plan to Strengthen Our Homeland Security

- $3.5 billion, a 1,000-percent increase -- for the nation's "first responders" – our police, firefighters and Emergency Medical Teams.

- $11 billion for border security, a $2 billion increase.

- Nearly $6 billion to defend against bioterrorism.

- $700 million to improve intelligence-gathering and information-sharing between agencies and throughout all levels of government.

- $230 million to create Citizen Corps to help your community be better prepared for a terrorist attack.

- The President's budget nearly doubles funding for a sustained strategy of homeland security, focused on four key areas: bioterrorism, emergency response, airport and border security, and improved intelligence. We will develop vaccines to fight anthrax and other deadly diseases. We'll increase funding to help states and communities train and equip our heroic police and firefighters. We will improve intelligence collection and sharing, expand patrols at our borders, strengthen the security of air travel, and use technology to track the arrivals and departures of visitors to the United States.

## The President's Plan

- $3.5 billion, a 1,000-percent increase -- for the nation's "first responders." These are the police officers, firefighters and medical personnel who risk their lives every day defending our homeland -- and who gave their lives on 9/11. The funding will help pay for new equipment, training and overtime costs, based on what states, cities and counties agree they need in order to implement their anti-terrorism plan.

- $11 billion for border security, a $2 billion increase. This includes a significant increase for the Coast Guard and the U.S. Customs Service, to keep unwanted goods – including drugs -- from coming into the U.S. by land, sea or air. And it includes funding for the Immigration and Naturalization Service to develop a new entry-exit visa database and tracking system.

- Nearly $6 billion to defend against bioterrorism. This will help hospitals become better able to respond to a bioterror emergency; boost research and development of new vaccines, medicines and diagnostic tests; and build up our critical National Pharmaceutical Stockpile.

- $700 million to improve intelligence-gathering and information-sharing. This money will not only help federal agencies share information with each other, but develop ways that we can share information with states and cities so they can better determine how to use their resources.

- $230 million to create Citizen Corps. A variety of programs to engage ordinary Americans in specific homeland security efforts in their own communities. Initiatives include the creation of a Medical Reserve Corps, a Volunteers in Police Service (VIPS) program and

a Terrorist Information and Prevention System (TIPS) – as well as a doubling of the Neighborhood Watch program, and a tripling of the Community Emergency Response Team (CERT) program.

## 2. President Signs Appropriation for FY2004

### President Bush Signs Homeland Security Appropriations Bill
Remarks by the President on Signing Homeland Security Appropriations Act
Department of Homeland Security
Washington, D.C. October 1, 2003

2:07 P.M. EDT

\On September the 11th, 2001, enemies of freedom made our country a battleground. Their method is the mass murder of the innocent, and their goal is to make all Americans live in fear. Yet our nation refuses to live in fear. And the best way to overcome fear and to frustrate the plans of our enemies is to be prepared and resolute at home, and to take the offensive abroad. The danger to America gives all of you an essential role in the war on terror. You've done fine work under difficult and urgent circumstances, and on behalf of a grateful nation, I thank you all for what you do for the security and safety of our fellow citizens.

I appreciate Tom Ridge agreeing to lead this important department. I'm honored to call him friend, and I'm proud of the job he is doing. I appreciate General John Gordon, who is the Homeland Security Advisor in the White House. I want to thank the very capable Department of Homeland Security leadership who are with us today.

I'm also honored to share this bill signing with members of the United States Senate and the United States House of Representative who did an excellent job of getting this bill through. I appreciate so very much the Senator from Mississippi, Thad Cochran, the Chairman of the Senate Appropriations Subcommittee on Homeland Security. I'm also honored that three members of the House are up here to join in the bill signing ceremony, starting with the Chairman of the House Appropriations Committee, Bill Young of Florida; Hal Rogers of Kentucky, the Chairman of the House Appropriations Subcommittee on Homeland Security; Congressman Martin Sabo from Minnesota, the ranking member of the House Appropriations Subcommittee on Homeland Security. I want to thank you all for a job well-done. (Applause.)

I'm also so pleased that members in the Senate and the House of both political parties are with us today. The stage wasn't big enough to hold you. Thank you for coming. Thanks for your hard work, and thanks for working together to do what's right for America.



This time two years ago, America was still in the midst of a national emergency. Smoke was rising from Ground Zero; recovery teams were carefully sifting through debris; and chaplains were comforting families and blessing the dead. Our nation does not live in the past; yet we do not forget the past and the grief of that time. We do not forget the men and women and children who were lost that day. We do not forget the enemies who rejoiced as America suffered, or those who seek to inflict more pain and grief on our country.

On September the 11th, America accepted a great mission, and that mission continues to this hour. We will do everything in our power to prevent another attack on the American people. And wherever America's enemies plot and plan, we'll find them, and we will bring them to justice. (Applause.)

The war on terror has set urgent priorities for America abroad. We are not waiting while dangers gather. Along with fine allies, we are waging a global campaign against terrorist networks -- disrupting their operations, cutting off their funding, and we are hunting down their leaders one-by-one. We are enforcing a clear doctrine: If you harbor a terrorist, if you feed a terrorist, if you support a terrorist, you're just as guilty as the terrorists, and you can expect to share their fate.

We're determined to prevent terror networks from gaining weapons of mass destruction. We're committed to spreading democracy and tolerance. As we hunt down the terrorists, we're committed to spending -- spreading freedom in all parts of the world, including the Middle East. By removing the tyrants in Iraq and Afghanistan who supported terror and by ending the hopelessness that feeds terror, we're helping the people of that regime, and we're strengthening the security of America.

The war on terror has also set urgent priorities here at home. Oceans no longer protect us from danger. And we're taking unprecedented measures to prevent terrorist attacks, reduce our vulnerabilities and to prepare for any emergency. That's what you're doing.

Each of you plays a vital role in this strategy to better secure America. Agencies that once worked separately to safeguard our country are now working together in a single department, and that's good for America. You've the authority to quickly put the right people in place as we respond to danger. You've got good leadership. Every member of this department has an important calling, and you need to know, when you come to work every day, your fellow citizens are counting on you.

Those in Customs and Immigration are performing essential work in controlling our borders, and at the same time, in reducing the backlog of immigrant applicants as we move toward a standard of six-month processing time for all applications.

At the Transportation Security Administration and the Coast Guard, you protect the vast road, rail and sea and air networks that are critical to the American economy. DHS scientists and engineers work to detect deadly chemical, biological and nuclear weapons. DHS experts help the public and private sectors to identify and address vulnerabilities in our power grids, chemical plants, communications systems and transportation networks. At FEMA, you joined forces with state and local authorities to respond quickly and effectively to any emergency.

All of you have been given a hard job, and you're rising to the challenge. The American people understand the importance of your work, and so does the United States Congress. The Homeland Security bill I will sign today commits $31 billion to securing our nation, over $14 billion more than pre-September 11th levels. The bill increases funding for the key responsibilities at the Department of Homeland Security and supports important new initiatives across the Department.

We're providing $5.6 billion over the next decade to fund Project BioShield. Under this program, DHS will work with the Department of Health and Human Services to accelerate the development and procurement of advanced vaccines and treatments to protect Americans against biological, or chemical, or radiological threats.

We're providing $4 billion in grants for our nation's first responders. We're focusing $725 million on major urban areas where it is most needed. We're also providing $40 million for Citizen Corps Councils through which volunteers work with first responders to prepare their communities for emergencies. We're ensuring that America's firefighters and police officers and emergency medical personnel have the best possible training and equipment and help they need to do their job.

We're better securing our borders and transportation systems while facilitating the flow of legitimate commerce. Our Container Security Initiative will allow for the screening of high-risk cargo at the world's largest ports and intercept dangerous materials before they reach our shores; supporting the efforts to strengthen our air cargo security system for passenger aircraft; to expand research on cargo screening technologies.

We're making sure the Coast Guard has the resources to deploy additional maritime safety and security teams, and patrol boats, and sea marshals to protect our ports and waterways.

More than $900 million in this bill will go to science and technology projects, including a major effort to anticipate and counter the use of biological weapons. With more than $800 million, we will assess the vulnerabilities in our critical infrastructures, we'll take action to protect them.

We're doing a lot here. And we're expecting a lot of you. When the terrorist enemies came into our country and took thousands of innocent lives, we made a decision in this country: We will not wait for enemies to strike again. We'll take action to stop them. We're not going to stand by while terrorists and their state sponsors plot, plan and grow in strength. By the actions that we continue to take abroad, we are going to remove grave threats to America and the world. History has given us that charge, and that is a charge we will keep. (Applause.)

We have been charged to protect our homeland, as well. And that's why we're taking actions to strengthen our defenses and to make our nation more secure. This bill is a major step forward in our ongoing effort, and I'm pleased to sign into law the Department of Homeland Security Appropriations Act of 2004.

## 3. FY 2004 Budget Fact Sheet (HR2555, conference report HR 108-280, Public Law

## 108-90, signed on 10/01/03

Today President Bush signed the first ever homeland security appropriations bill at the Department of Homeland Security, continuing his commitment to protect the American people. Overall, the Department's FY 2004 budget authority totals $37.6 billion: $30.4 billion provided by the Congress plus an additional $7.2 billion in fees.

Below are some highlights:

### Aviation Security

- Of nearly $4.6 billion in Transportation Security Administration (TSA) funding, specific programs include:

  · $150 million to purchase explosives detection systems.

  · $250 million to install these systems in airports.

- Another $85 million is allocated to improve air cargo security, including:

  · $30 million to enable TSA to improve its oversight of the known shipper program, using a risk-weighted freight screening system that will identify pieces of cargo that require closer scrutiny before being loaded on passenger aircraft. Funds will also enable TSA to hire an additional 100 staff to perform more in-depth audits of shipper compliance with the known shipper requirement.

  · $55 million to be used by TSA's Research and Development to pursue a variety of technological solutions that would allow for the most efficient and targeted inspections of cargo carried on passenger aircraft.

### Port Security

- $14 million for the "Customs-Trade Partnership Against Terrorism (C-TPAT)" that will *more than double the number* of the Department's partnerships with foreign manufacturers and importers.  These partners agree to meet "supply chain" standards ensuring that their shipment methods repel potential terrorist attempts to use those shipments for introducing weapons of mass destruction into our ports.

  · C-TPAT will add nearly 160 more supply chain security experts to provide training and technical assistance to those partners, who will benefit from the increased level of trust by experiencing fewer port inspections and shorter wait times.

- $62 million for the Container Security Initiative (CSI), to deploy teams of inspectors, special agents, and intelligence analysts to 20 foreign "mega-ports" and approximately 10 other strategic ports to inspect containerized cargo for weapons of mass destruction before it is ever shipped to the United States.

- $64 million will support technology for non-intrusive inspection (NII).  This will add to a variety of port inspection assets supported from prior year funding, including radiation detection systems, large scale x-ray machines for trucks and oceangoing shipping containers, mobile vehicle and cargo inspection systems (VACIS), and isotope identifiers for international mail and express courier hubs.  The advantage to importers whose cargo warrants increased inspection will be more efficient, timely, and less costly inspections than the alternative of physical removal of cargo from a conveyance.

- $125 million for port security grants that fund security planning and projects to improve dockside and perimeter security at the nation's ports.  These funds represent the latest round of grants awarded to state and local governments and private companies that contribute to important security upgrades like new patrol boats in the harbor, surveillance equipment at roads and bridges, and the construction of new command and control facilities.

## Border Security and Immigration Enforcement

- $41 million for up to 570 additional Border Patrol Agents.
- $35.2 million for an air surveillance wing on the Northern Border, of which $12.8 million is for the purchase of aircraft.
- $6.7 million for 51 more Special Agents in the Compliance Enforcement Office of Immigration and Customs Enforcement's  (ICE) Office of Investigations.  These agents will follow up on "overstays" identified by the US VISIT, SEVIS and NSEERS databases.

## US VISIT

- $330 million is provided for the US Visitor and Immigrant Status Indicator Technology (US VISIT) project under the direct control of the Under Secretary for Border and Transportation Security.  This system will provide the capability to record the entry and exit of non-US citizens into and out of the US, and provide officials with information about persons who are in the US in violation of the terms of their admission to the US.

## Training More Federal Agents

- The Federal Law Enforcement Training Center receives $192.78 million, chiefly to provide additional student training days to federal law enforcement agents.

## State and Local Funding

- $4.037 billion is allocated to the Office for Domestic Preparedness for assistance to our nation's first responders, including:

  · $1.7 billion for formula-based grants of which 80% of the funds made available to the state shall be made available to the localities within 60 days of the state receiving the funds.

  · $750 million for Firefighters Assistance Grants.

  · $725 million for discretionary grants for high-threat, high-density urban areas, of which 80% of the funds made available to the state shall be made available to the localities within 60 days of the state receiving the funds.  In administering these grants, the Congress has directed

the Secretary to take into consideration credible threat, presence of critical infrastructure, population, vulnerability, cooperation of multiple jurisdictions in preparing domestic preparedness plans, and the identified needs of public agencies when determining the allocation of these funds.

· $500 million for law enforcement terrorism prevention grants, of which 80% of the funds made available to the state, shall be made available to the localities within 60 days of the state receiving the fund. This is a new appropriation not funded in FY 2003.

· $40 million for Citizen Corps grants.

## Emergency Preparedness

- $9.1 billion is provided for Emergency Preparedness and Response, including:

· $1.8 billion for the <u>Disaster Relief Fund</u>, which provides federal assistance to supplement state and local governments' disaster response, recovery, preparedness and mitigation efforts. With this funding, DHS provides a significant portion of the total Federal response to victims in Presidentially-declared major disasters and emergencies.

· $484 million for Public Health Programs, specifically $400 million for the <u>Strategic National Stockpile</u>, $50 million for the <u>Metropolitan Medical Response System</u> and $34 million for the <u>National Disaster Medical System</u>. This activity provides for the countermeasures needed to treat diseases caused by critical chemical and biological agents, as well as medical and support personnel. This FY 2004 funding is a $184 million increase over the $300 million funded in 2003.

· $200 million for the <u>flood map modernization</u> activities. This program uses state-of-the-art technology to cost-effectively develop accurate and complete flood hazard information nationwide. This capability will enable state and local planners to better identify high risk areas susceptible to flood damage. Using Hurricane Isabel as an example, FEMA, along with state and local land planning agencies, could have used this technology to better help identify areas in Virginia and North Carolina that are at risk for flood damage. This information is then used to develop a mitigation strategy where the Chesapeake Watershed is managed and improvements to coastal lands and structures are made that would have minimized flood damage. The flood map modernization program works in tandem with FEMA's National Flood Insurance Fund, and together helps Americans limit losses in consequence of flood damage every year. The FY 2004 budget allocates $51 million more in funds over the $149 million funded in 2003.

· $180 million for <u>Emergency Management Performance Grants</u>, of which no more than 3% may be used for administrative expenses. These grants help reduce the risk of future damage in hazard areas and ultimately reduce the need for disaster assistance. This is an increase of $15 million over the $165 million funded in 2003.

· $153 million for the <u>Emergency Food and Shelter Program</u>, of which no more than 3.5% may be used for administrative expenses. This program is designed to help address the problems of hunger and homelessness associated with disasters.

· $60 million for <u>Urban Search and Rescue Teams</u>, of which no more than 3% may be used for administrative expenses. This provides funding for the operations, equipment and training of search and rescue teams.

· $5.6 billion in advance appropriations for the years FY 2004 to FY 2013 for <u>Project Bioshield</u>, of which $890 million is available in FY 2004. Under this program, DHS will work with the Department of Health and Human Services to accelerate the development and procurement of advanced vaccines and treatments to protect Americans against biological, chemical, and radiological threats.

## Modernizing the U.S. Coast Guard

- Of $6.8 billion provided for the Coast Guard,

·       $668 million is allocated to the Integrated Deepwater System Project, the Coast Guard's multi-year recapitalization that will replace or modernize the Coast Guard's large ships, aircraft, sensors, command and control systems, and logistics system.  Deepwater funding in FY-04 including $143 million for aircraft, which will include the purchase of a CASA 235 maritime patrol aircraft; $303 million to be used in part for construction of the first 420-foot National Security Cutter; $101 million for use in part for continued development of  a network-centric command and control system that will provide a common operating picture; $24.7 million for a common logistics information system; and continued development of the vertical unmanned aerial vehicle that will deploy from IDS cutters.

·       The FY 2004 budget provides for 7 additional deployable Maritime Safety and Security Teams for a total of 13 teams.  Each team includes 90 people and 6 boats, which provide a robust security posture in ports to protect vulnerable assets such as bridges, nuclear power plants, passenger vessels, and vessels carrying hazardous cargo.

·       An additional $26.3 million and 529 new personnel increase the Coast Guard's search and rescue capability, and the safety of its people as they perform rescues during storms, floods, and darkness.

## Science and Technology

•       $918.2 million is provided for Science and Technology, including:

·       $88 million for the National Biodefense Analysis and Countermeasures Center to build a facility that will be the DHS "hub and spoke" system that will further the mission of increasing understanding of potential bioterrorism pathogens and improving protection of human health and agriculture against biological terrorism.

·       $75 million for the Rapid Prototyping Program, to fund counterterrorism projects selected through last summer's and this fall's Technical Support Working Group solicitations, and to support the rapid adaptation of commercial technologies  through the Homeland Security Advanced Research Projects Agency (HSARPA) for use by DHS and state and local first responders.

·       $70 million for the Homeland Security University Programs.  This program will include the Homeland Security Scholars and Fellows program that will provide scholarships to undergraduate and graduate students pursuing scientific studies in homeland security.  In addition, it will include the Homeland Security Centers of Excellence (HS-Centers) program that will establish a coordinated, university-based system to enhance the Nation's homeland security. The HS-Centers will be a critical component of our nation's defenses by providing a dedicated capability that will enhance our ability to anticipate, prevent, respond to, and recover from terrorist attacks.

·       $66.5 million for critical infrastructure protection, of which $60 million is provided for the research, development, testing and evaluation of an anti-missile device for commercial aircraft.

·       $39 million for developing a database of homeland-security related standards from private sector standards development organizations, for certification and accreditation models for products and services, for testing and evaluation protocols for commercial radiation detectors, and for developing standard chemical methods of analysis of high explosives, chemical warfare agents, and toxic industrial chemicals.

·       $38 million will be used to continue the deployment of the Urban Monitoring Program, also known as BioWatch.  Through the BioWatch biosurveillance program, DHS, the Environmental Protection Agency and the Centers for Disease Control's Laboratory Response Network provide early detection of bio-threats.  These partners are working with state and local officials to implement an effective consequence management plan that incorporates the BioWatch

system.   In addition, these funds are also being applied to develop the next generation of bio-pathogen monitoring sensors.

·        $127 million will be used to develop sensors and other countermeasures to prevent the illicit transport and use of radiological and nuclear materials within the United States.

## Information Analysis and Infrastructure Protection

•        A total of $839.3 million is provided for information analysis and infrastructure protection, including:

·

·        $20 million for the Departmental Command Center, which provides 24 hour a day, 7 day a week live watch for command, control, and monitoring capabilities of the Department.

·        $28 million for threat determination and assessment, which provides strategic assessments of our nation's critical infrastructures and key assets, including 168,000 public water systems; 300,000 oil and natural gas production facilities; 4,000 offshore platforms; 278,000 miles of natural gas pipelines; 361 seaports; 104 nuclear power plants; 80,000 dams; and tens of thousands of other potentially critical targets.

·        $52.3 million for information warnings and advisories, which will develop a comprehensive process to guide intelligence collection, assessment, evaluation, and prioritization; and ensure the required privacy protection related to the use, collection, and disclosure of private sector and personal information.

·        $84.2 million for infrastructure vulnerability and risk assessment, which will develop and maintain a complete, accurate, and prioritized mapping of the nation's critical infrastructures and key assets including agriculture, food, water, public health, emergency services, government, defense industrial base, information and telecommunications, energy, transportation, banking and finance, chemical and hazardous materials, postal and shipping, and monuments and icons.

·        $345 million for remediation and protective actions, which includes work with state and local governments, and industry, to identify and prioritize protective measures; and to develop objective protection standards and performance measures.

·        $141 million for the National Communications System, which includes the emergency notification system, back-up dial-tone, government emergency telecommunications network, and wireless priority service.

## Immigration Services

·        The CIS budget includes $1.8 billion, a 9% increase ($143 million) over FY 2003 to support further improvements in application processing as well as the processing of projected volume.  The $1.8 billion is comprised of $236 million in appropriated funding and approximately $1.6 billion in projected fee revenues.

·        The CIS budget supports the President's five-year, $500 million initiative, begun in FY 2002, to attain a universal six-month processing time standard for all immigration benefit applications, and provide quality service to all legal immigrants, citizens, businesses and other CIS customers.  The third $100 million installment of the President's five-year plan consists of $20 million from revenues generated by the Premium Processing Service fee and $80 million in appropriated funds.

## Secret Service

- $1.14 billion is provided for the Secret Service, which includes new funding for White House mail screening.  The bill also supports security enhancements at Secret Service protected facilities.
- The USSS will be the lead agency for multiple <u>National Special Security Events</u> this year, including the G7/G8 meeting and the Republican and Democratic National Conventions and protection of presidential candidates during the campaign of 2004.
- The bill also supports the Secret Service <u>Electronic Crimes Task Force</u> initiative, promotes additional programs to protect our nation's financial infrastructure, and allows the Secret Service to continue to provide grant and forensic support to the National Center for Missing and Exploited Children.


**PART Performance Reviews**

(Portions of the Department of Homeland Security mission have been subjected to OMB scoring through performance based budget reviews by OMB. The excerpt from McCaffery and Jones on Defense Budgeting (2004, forthcoming) explains more about the PART  scoring sytem and its derivation.)

In 2002 and 2003, portions of the federal budget were prepared and analyzed using what may be termed performance-based budget review to link funding to performance measures and accomplishments for federal programs within departments and agencies. The approach used by OMB for the FY 2003 President's Budget, the Program Assessment Rating Tool or PART, was employed to score performance in approximately 220 programs (about 20% of total on-budget federal programs) for the President's Budget. PART scores programs using multi-variable criteria set of approximately 30 variables that culminates in what may be characterized as a "stop light" system: red for failing performance, yellow for marginal performance, and green for good performance. OMB intends to extend the application of PART to all programs in the budget in future budget review. If this is done, it will be a time consuming effort.

For FY 2003 many programs received failing scores -- but improvements were measured for FY 2004. Departments and agencies have invested staff time and energy into achieving improved ratings in attempt to be rewarded in the President's Budget. The key incentive supporting the PART system is the intent of OMB directors and staff to integrate performance-scoring with OMB budget review. Presumably, programs that improve their ratings will be rewarded in the budget. The advantages of the PART approach are two-fold. First, the scoring is easy to understand because it is simple -- red,

yellow, green -- like the ABC scale used in graduate education (a C isn't a failing grade and, likewise, agencies receiving red scores do not suffer budget losses). Second, PART scores are scaled relative to a set of variables that represent the strategic and annual planning, management and execution performance by programs according to data developed and reported to OMB by agencies. OMB does not provide the data for PART reviews.

Review of the PART system by departments and agencies that have been rated by OMB indicated several recurrent criticisms (Jones, 2003b). The PART questionnaire instrument requires yes or no answers to a number of questions about performance. It has been suggested that a better system would have departments and agencies rate their answers on a scale, e.g., 1 (lowest) to 5 (highest). Scaled data are more amenable to analysis than yes/no responses. A second criticism concerned the way OMB defined the units of analysis -- as programs instead of departmental or agency administrative entities. Some programs defined by OMB were not administered as such by departments and agencies (many programs cross agency jurisdictions), thus making performance reporting more difficult. A third criticism was that while OMB provided some feedback on their assessment of questionnaire responses and desired improvements in program performance, more information of this type was needed.

Testimony to Congress by David Walker, the Controller General of the U.S. government, and comments by representatives of the General Accounting Office, the Offices of the Inspectors General and members of Congress indicate that important institutional observers, including the key oversight committees of Congress, have reviewed OMB assessment of executive programs and management practices for the FY 2003 and 2004 budgets. Thus far, according to the U. S. Comptroller General, generally they have been supportive of administration efforts (Walker, 2002).

GAO has been very specific in stating that it had reviewed favorably the criteria supporting PART and OMB evaluation of department and agency performance. OMB has targeted review to improve performance in five areas of management: human resources

management productivity, competitive sourcing (i.e., contracting out), financial management, e-government, and integration of performance measurement and budgets. As noted in the dialogue above, Christopher Mihm of GAO stated that in his view the approach and its execution were methodologically sound (Mihm, 2002a). GAO reviews of performance management from the late 1990s through 2002 have been supportive (GAO, 1996a; 1997a; 1998; 1999b; 2000a; 2000b, Mihm, 2002b). GAO has favored performance measurement to the extent that it recommended in 2002 that Congress adopt a "Performance Resolution" process to measure and report annually on executive agency progress. This approach would function in a manner similar to the Budget Resolution process. (Posner, 2002) Such support for performance budget review (as distinct from broad-scale performance budgeting) may change, but it is clear that virtually everyone in the nation's capitol took serious notice of and responded to the Bush administration OMB initiatives with performance measurement and results reporting linked to budgets. Below are the PART ratings for the DHS.

# DEPARTMENT OF HOMELAND SECURITY

Over the next two years, DHS faces the challenge of reorganizing nearly two dozen programs and agencies with nearly 180,000 employees. Key to success are new management flexibilities. Because DHS is new, the status starts at red reflecting the known condition of several of the large components being transferred to the department. Progress ratings will be determined in the next year. As such, specific near-term goals for each initiative are highlighted below rather than progress reports in reaching them.

## President's Management Agenda

*Status*

*Human Capital*   Ⓡ

- Conduct a workforce analysis to identify mission-critical skills, the competencies of current workers, and actions to be taken to close the gaps.
- Develop a performance-based human resources management system to reward and motivate employees.

*Competitive Sourcing / Procurement*   Ⓡ

- Use innovative procurement methods during DHS' start up. Partner with the private sector when possible and appropriate.
- Conduct a review of the Department's activities, identify commercial functions, and develop a plan for competing jobs that can be done in the private sector.

*Financial Performance*   Ⓡ

- Implement a unified financial management system that links funding to performance.

*Expanding E-Government*   Ⓡ

- Develop a unified operating infrastructure that supports DHS programs and activities.
- Map operational systems to identify any redundancies and obsolete systems.
- Develop an interactive website that allows for on-line benefit and grant applications.

*Budget and Performance Integration*   Ⓡ

- Develop a five-year strategic plan and line up resources with goals for the 2005 Budget.
- Develop a performance management system that links resources to programs' operations.

## Program Assessments

Nine programs that moved into DHS received PART reviews. Seven did not demonstrate results. These programs generally have a clear purpose but lack long-term, measurable goals. DHS will undertake performance evaluations of its programs over the next two years to identify remedial steps or other appropriate action.

141

HUD's entry is posted for comparison:

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

For many years, audits and other assessments have documented chronic weaknesses in HUD's staffing as well as information and financial systems. Two large programs, comprising two-thirds of the Department's funds, are rated high-risk by the General Accounting Office. HUD officials have focused on these deficiencies and have demonstrated sustained progress.

**President's Management Agenda**

| | Status | Progress |
|---|---|---|
| *Human Capital* | (R) | (Y) |

HUD is red in status for several reasons including skill gaps and human capital deficiencies across the Department. HUD does not sustain a high-performing workforce that is continually improving in productivity. HUD's progress, which is yellow, includes stepped up recruitment and hiring, adding new talent to augment the Cabinet's oldest workforce.

| | Status | Progress |
|---|---|---|
| *Competitive Sourcing* | (R) | (Y) |

HUD is red in status because it has completed no studies of public-private competitions to determine the best method to deliver services. Progress is yellow because HUD has decided on the activities it plans to subject to public-private competition.

| | Status | Progress |
|---|---|---|
| *Financial Performance* | (R) | (G) |

HUD's red status is due to five repeat material weaknesses on its latest audit report. Some financial systems fail to meet federal requirements. HUD's progress is green because of new internal controls procedures and the successful implementation of the first phase of the FHA commercial accounting system.

| | Status | Progress |
|---|---|---|
| *Expanding E-Government* | (R) | (G) |

HUD is red in status because of chronic problems implementing IT systems. HUD's progress is green because of improved oversight and control of costs on investments in information technology.

| | Status | Progress |
|---|---|---|
| *Budget and Performance Integration* | (R) | (G) |

HUD is red in status because planning and budget are separate, with not enough focus on outcomes. HUD's green progress rating results from using outcomes rather than outputs in selected cases in this year's budgeting and its development of a performance-based budget format.

151

113

DHS detail ratings follow:

**Program:** *Disaster Relief Fund - Public Assistance*

*Agency: Department of Homeland Security*
*Bureau:*

| | |
|---|---|
| Purpose | 90 |
| Planning | 57 |
| Management | 43 |
| Results / Accountability | 50 |

0        100

☐ Results Achieved     ☐ Measures Adequate
☑ Results Not Demonstrated     ☑ New Measures Needed

| Key Performance Measures | Year | Target | Actual |
|---|---|---|---|
| Long-term Measures: Measures under development | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Annual Measure: Customer satisfaction rating on survey of grant recipients | 2001 | | 87% |
| | 2002 | 87% | |
| | 2003 | 88% | |
| | 2004 | 87% | |
| Annual Measure: Efficiency measure under development | | | |
| | | | |
| | | | |
| | | | |
| | | | |

**Rating:** *Results Not Demonstrated*

*Program Type: Direct Federal*

*Program Summary:*

The Public Assistance program provides grants to States following disasters, for the repair of damaged public facilities such as court houses, community centers, sports stadiums, and hospitals. The grants also pay for debris removal and some emergency services.

The program assessment demonstrated that the program has a strong purpose, but suffers from planning and management deficiencies that hinder results.
1. The program has no long-term outcome measures.
2. It cannot meaningfully track its operations with annual performance measures.
3. The program fails to adequately screen requests for assistance to determine whether Federal help is needed.

Additional program reforms are being deferred until establishment and incorporation of the program into the Department of Homeland Security. Note--Funding identified below is estimated percentage of spending from the Disaster Relief Fund for the Public Assistance program in each year. FEMA does not budget separately for this program, but budgets, instead, for the Disaster Relief program as a whole. Actual funding from year to year depends on the level of disaster activity and destruction to public facilities.

*Program Funding Level (in millions of dollars)*

| 2002 Actual | 2003 Estimate | 2004 Estimate |
|---|---|---|
| 5,521 | 981 | 1,054 |

143

114

**Program:** *Aids to Navigation*

**Agency:** *Department of Homeland Security*
**Bureau:** *Coast Guard*

| | |
|---|---|
| Purpose | 80 |
| Planning | 66 |
| Management | 82 |
| Results / Accountability | 53 |

0 — 100

☐ Results Achieved    ☐ Measures Adequate
☑ Results Not Demonstrated    ☑ New Measures Needed

| Key Performance Measures | Year | Target | Actual |
|---|---|---|---|
| Long-term Measure: Measures under development | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Annual Measure: Total number of commercial vessel collisions, allisions, and groundings. A collision is when two moving objects hit each other. An allision is when a vessel hits a stationary object. While this is an acceptable indicator, the program is not yet able to demonstrate its effect on accidents in the long-term. | 1999 | | 2,194 |
| | 2000 | | 2,152 |
| | 2001 | 2,261 | 1,677 |
| | 2002 | 2,098 | |
| Annual Measure: Percentage of time waterways are available for commerce. Waterways are usually open to traffic but may be closed due to accidents or to navigational aids being unavailable. (New measure) | 2003 | 98% | |
| | | | |
| | | | |
| | | | |

**Rating:** *Results Not Demonstrated*
**Program Type:** *Direct Federal*
**Program Summary:**

The Aids to Navigation (ATON) program helps ensure that vessels move safely in U.S. ports and waterways. This mission includes maintaining buoys, lighthouses, and radio navigation systems.

The PART raised questions about the design of the ATON program, which is run directly by the Coast Guard. Other program designs, such as contracting out some functions, may be more appropriate or efficient. In addition, the assessment found that the ATON program has no long-term performance measures and no regular evaluations. Therefore, the program cannot demonstrate at this time the level of impact it is having on vessel safety. To address these findings, the Administration will conduct an A-76 study on the ATON program to determine whether its services may be more efficiently provided by the private sector.

*Program Funding Level (in millions of dollars)*

| 2002 Actual | 2003 Estimate | 2004 Estimate |
|---|---|---|
| 973 | 974 | 1,073 |

---

**Program:** *Disaster Relief Fund - Public Assistance*

**Agency:** *Department of Homeland Security*
**Bureau:**

| | |
|---|---|
| Purpose | 90 |
| Planning | 57 |
| Management | 43 |
| Results / Accountability | 50 |

0 — 100

☐ Results Achieved    ☐ Measures Adequate
☑ Results Not Demonstrated    ☑ New Measures Needed

| Key Performance Measures | Year | Target | Actual |
|---|---|---|---|
| Long-term Measures: Measures under development | | | |
| | | | |
| | | | |
| | | | |
| Annual Measure: Customer satisfaction rating on survey of grant recipients | 2001 | | 87% |
| | 2002 | 87% | |
| | 2003 | 88% | |
| | 2004 | 87% | |
| Annual Measure: Efficiency measure under development | | | |
| | | | |
| | | | |
| | | | |

**Rating:** *Results Not Demonstrated*
**Program Type:** *Direct Federal*
**Program Summary:**

The Public Assistance program provides grants to States following disasters, for the repair of damaged public facilities such as court houses, community centers, sports stadiums, and hospitals. The grants also pay for debris removal and some emergency services.

The program assessment demonstrated that the program has a strong purpose, but suffers from planning and management deficiencies that hinder results.
1. The program has no long-term outcome measures.
2. It cannot meaningfully track its operations with annual performance measures.
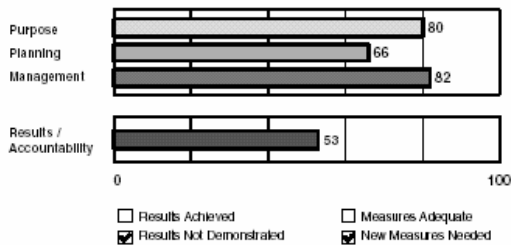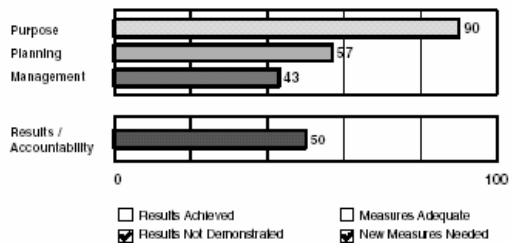3. The program fails to adequately screen requests for assistance to determine whether Federal help is needed.

Additional program reforms are being deferred until establishment and incorporation of the program into the Department of Homeland Security.
Note--Funding identified below is estimated percentage of spending from the Disaster Relief Fund for the Public Assistance program in each year. FEMA does not budget separately for this program, but budgets, instead, for the Disaster Relief program as a whole. Actual funding from year to year depends on the level of disaster activity and destruction to public facilities.

*Program Funding Level (in millions of dollars)*

| 2002 Actual | 2003 Estimate | 2004 Estimate |
|---|---|---|
| 5,521 | 981 | 1,054 |

143

115

**Program:** *Drug Interdiction*

| | |
|---|---|
| Purpose | 100 |
| Planning | 65 |
| Management | 83 |
| Results / Accountability | 25 |

0 — 100

- ☐ Results Achieved
- ☑ Results Not Demonstrated
- ☐ Measures Adequate
- ☑ New Measures Needed

| Key Performance Measures | Year | Target | Actual |
|---|---|---|---|
| Long-term Measure: Measures under development | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Annual Measure: Seizure rate for cocaine shipped through the transit zone (Metric tons of cocaine seized by Coast Guard relative to total estimated by interagency flow models to be smuggled through a six-million square mile area including the Carribean Sea, Gulf of Mexico, Central America, northern coast of South America, Mexico, and Eastern Pacific) | 1999 | 12.5% | 12.2% |
| | 2000 | 13.0% | 10.6% |
| | 2001 | 15.0% | 11.1% |
| | 2002 | 18.7% | |
| Efficiency Measure: Measures under development | | | |
| | | | |
| | | | |
| | | | |

**Rating:** *Results Not Demonstrated*

Program Type: *Direct Federal*

Program Summary:

The Coast Guard's Drug Interdiction program seizes and disrupts illegal drug shipments before they arrive in the U.S. This mission is accomplished by Coast Guard ships and aircraft patrolling the ocean areas between drug source countries and the U.S. border.

The PART found that while the program is generally well-managed, it faces challenges in strategic planning and performance.
1. The PART identified no significant problems with the Drug Interdiction program purpose or management.
2. This program has significant weaknesses in strategic planning. First, it does not have long-term performance measures specific to this program. Also, comprehensive evaluations for this program are not performed on a regular basis.
3. While the Coast Guard has not met its annual goals, it is developing new strategies and making key investments to improve its performance in the future.

In response to these findings, the Administration will work to develop useful long-term performance measures and efficiency measures for this program and to plan for regular evaluations.
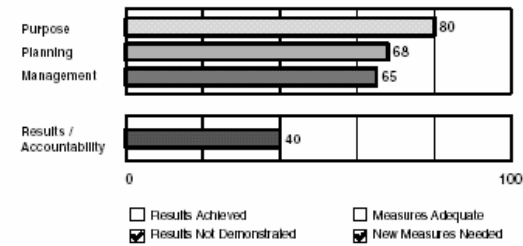
Program Funding Level (in millions of dollars)

| 2002 Actual | 2003 Estimate | 2004 Estimate |
|---|---|---|
| 724 | 697 | 788 |

144

116

**Program:** *Federal Law Enforcement Training Center*

**Agency:** *Department of Homeland Security*
**Bureau:** *Federal Law Enforcement Training Center*

| | | |
|---|---|---|
| Purpose | | 80 |
| Planning | | 68 |
| Management | | 65 |
| Results / Accountability | | 40 |

0 — 100

☐ Results Achieved ☐ Measures Adequate
☑ Results Not Demonstrated ☑ New Measures Needed

| *Key Performance Measures* | *Year* | *Target* | *Actual* |
|---|---|---|---|
| Long-term Measure: Measures under development | | | |
| | | | |
| | | | |
| | | | |
| Annual Measure: Partner organization satisfaction rate of law enforcement training (New measure, targets under development) | | | |
| | | | |
| | | | |
| | | | |
| Annual Measure: Student satisfaction rate of law enforcement training (New measure, targets under development) | | | |
| | | | |
| | | | |
| | | | |

**Rating:** *Results Not Demonstrated*

*Program Type: Direct Federal*
*Program Summary:*

The Federal Law Enforcement Training Center (FLETC) trains Federal law enforcement officers for over 74 Federal agencies. FLETC also conducts numerous training programs for State, local and international officials and organizations. FLETC is transferring from Treasury to the Department of Homeland Security.

The assessment indicates the overall purpose of the program is clear, but coordination between FLETC and other training providers needs improvement. Additional findings include:
1. The program's long-term performance goals lack specific targets to determine whether or not outcome goals are being achieved.
2. FLETC's budget is not structured in a way to assess the impact of funding and policy changes on program performance.
3. The program's annual performance goals are not directly tied to achieving the long-term performance goals.

To address some of these findings, FLETC recently hired a private firm to conduct a capacity assessment and it will submit the results to OMB by March. In addition, the program is implementing a series of reforms designed to address these findings, including:
1. Developing clear long-term performance goals with specific timeframes and measures;
2. Working with other training providers to establish uniform measures and unit costs of training personnel; and
3. Refining existing annual performance goals and align them with the long-term performance goals.
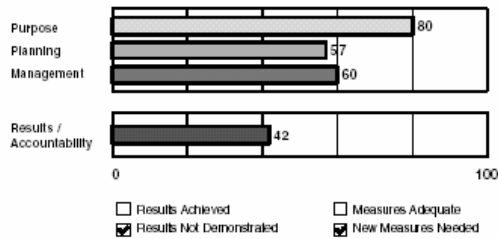
*Program Funding Level (in millions of dollars)*

| 2002 Actual | 2003 Estimate | 2004 Estimate |
|---|---|---|
| 169 | 144 | 146 |

145

117

**Program:** *Hazard Mitigation Grant*

*Agency: Department of Homeland Security*
*Bureau:*



| | |
|---|---|
| Purpose | 80 |
| Planning | 57 |
| Management | 60 |
| Results / Accountability | 42 |

0       100

☐ Results Achieved     ☐ Measures Adequate
☑ Results Not Demonstrated     ☑ New Measures Needed

| Key Performance Measures | Year | Target | Actual |
|---|---|---|---|
| Long-term Measure:<br>Value of avoided property damage<br>(Interim targets under development) | 2008 | $2.45 B | |
| | | | |
| | | | |
| | | | |
| Annual Measure:<br>Community resistance to natural hazards- as measured by reduction in lives at risk<br>(Targets under development) | 2001 | 5,000 | 11,274 |
| | | | |
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| | | | |
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| | | | |
| | | | |

**Rating:** *Results Not Demonstrated*

*Program Type: Block/Formula Grants*

*Program Summary:*

The Hazard Mitigation Grant Program provides grants to States for projects designed to reduce losses to public and private property from future disasters.

Although the program has a relatively clear purpose, it suffers from planning and management weaknesses that limit results. Chief among these are that performance measurement and reporting are lacking, and grant oversight is inadequate. As the PART revealed, the program also suffers from a number of design flaws. Key findings of the assessment include:
1. The program allocates funds to States based on a formula rather than on need. Thus the program is reactive and lacking in targeting funding for areas of greatest risk.
2. The program sets a low hurdle for project eligibility determinations by requiring that mitigation projects require no more than $1 in benefits for every $1 spent.
3. The program reserves a significant portion of funds for projects for which FEMA requires no benefit-cost determination so that a project could result in less than $1 in benefits for every $1 spent.

The budget proposes a major restructuring of the program to increase its effectiveness.
1. The program will be replaced with a pre-disaster competitive grant program, funded at $300 million, that will allocate limited Federal funding to high risk mitigation priorities.
2. The new program will operate independently of the Disaster Relief programs, assuring that funding remains stable and is not subject to spikes in disaster activity.
3. Awarding grants on a pre-disaster, competitive basis would ensure that the most worthwhile, cost-beneficial projects receive funding. No further funding is recommended for the existing program.

Note--Funding identified below is estimated percentage of spending from the Disaster Relief Fund for the Hazard Mitigation Grant program in each year.

(For more information on this program, please see the Department of Homeland Security chapter in the Budget volume.)
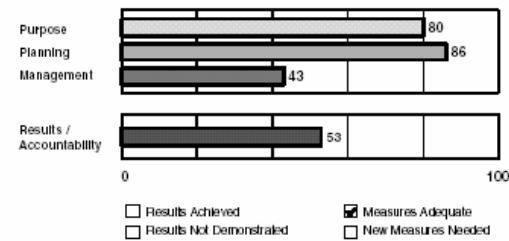
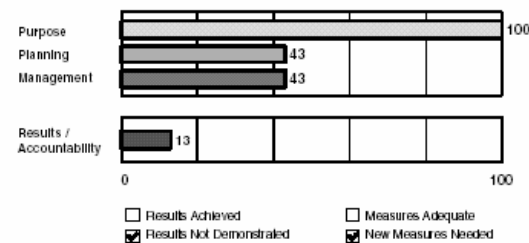*Program Funding Level (in millions of dollars)*

| 2002 Actual | 2003 Estimate | 2004 Estimate |
|---|---|---|
| 589 | 0 | 0 |

146

118

**Program:** *Immigration Services*

**Agency:** *Department of Homeland Security*
**Bureau:** *Bureau of Citizenship and Immigration Services*

| | |
|---|---|
| Purpose | 80 |
| Planning | 86 |
| Management | 43 |
| Results / Accountability | 53 |

0 — 100

☐ Results Achieved ☑ Measures Adequate
☐ Results Not Demonstrated ☐ New Measures Needed

**Rating:** *Adequate*

**Program Type:** *Direct Federal*
**Program Summary:**

Immigration Services provides immigration information and benefits to the public. Immigration Services makes decisions about who receives different benefits for both temporary and permanent legal status in the U.S. These benefits range from alien registration cards and asylum applications, to the ultimate benefit of citizenship.

Findings from the PART assessment include the following:
1. Immigration Services has engaged in extensive strategic planning with both long and short term goals.
2. Significant progress has been made towards achieving key performance goals such as reducing the application backlog and maintaining processing times.
3. The program has a plan to reduce backlogs of applications. It tracks the processing times of its applications and reports to Congress on a monthly basis on its progress towards achieving goals.
4. Although Immigration Services has made a number of improvements in the last several years, it is not yet designed to quickly respond to unforeseen events. In the past year, events such as September 11, expansion of national security checks, and new legislation/policies implemented to meet the needs of special populations have diverted resources and caused sudden increases in its workload.
5. Immigration Services also has significant financial management challenges such as not making timely deposits of application fees pursuant to Treasury guidelines and audit problems concerning the inability to compute "deferred revenue" through automated systems for case processing. The program is implementing a series of reforms designed to address these findings.

(For more information on this program, please see the Department of Homeland Security chapter in the Budget volume.)

| Key Performance Measures | Year | Target | Actual |
|---|---|---|---|
| Long-term Measure: Average number of months to process benefit applications (data in months; 2001-2002 data for naturalization applications only; 2003-2004 data for all benefit applications; 2003 target under development) | 2001 | 9 | 8 |
| | 2002 | 8 | 10 |
| | | | |
| | 2004 | 6 | |
| Annual Quality Measure: Percentage compliance with naturalization quality procedures (2001-2002 data for naturalization applications only; 2003-2004 data for expanded application types) (New quality measure under development) | 2001 | 99% | 99% |
| | 2002 | 99% | 99% |
| | | | |
| | | | |
| Efficiency measure: Specific measure and targets under development | | | |
| | | | |
| | | | |
| | | | |

**Program Funding Level (in millions of dollars)**

| 2002 Actual | 2003 Estimate | 2004 Estimate |
|---|---|---|
| 1,604 | 1,656 | 1,799 |

---

**Program:** *Metropolitan Medical Response System*

**Agency:** *Department of Homeland Security*
**Bureau:** *Departmental Management*

| | |
|---|---|
| Purpose | 100 |
| Planning | 43 |
| Management | 43 |
| Results / Accountability | 13 |

0 — 100

☐ Results Achieved ☐ Measures Adequate
☑ Results Not Demonstrated ☑ New Measures Needed

**Rating:** *Results Not Demonstrated*

**Program Type:** *Block / Formula Grants*
**Program Summary:**

The MMRS program helps local health personnel respond to a mass casualty incident, including a terrorist use of a weapon of mass destruction.

Findings from the PART assessment include the following:
1. The purpose of MMRS is clear. The program was designed to provide 122 cities with funding to establish a base level of preparedness.
2. The program has not developed any long-term or short-term outcome goals by which to measure results.
3. Evidence of proper management demonstrated mixed results. No financial audit information was available for this program.
4. Due to the fact that this program is administered through contracts rather than grants, contractors are in many ways automatically aligned with and accountable to the goals of the program. However, goals are not well established across contracts, nor is performance information used to change contract funding amounts, or purposes.

The Budget recommendation reflects:
1. Discontinuation of this program in 2004 since the large increase in the 2003 Budget completes the mission of providing 122 cities with necessary funding to establish a base level of preparedness.

| Key Performance Measures | Year | Target | Actual |
|---|---|---|---|
| Long-term Measure: Measures under development | | | |
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**Program Funding Level (in millions of dollars)**

| 2002 Actual | 2003 Estimate | 2004 Estimate |
|---|---|---|
| 25 | 60 | 0 |

**Program:** *National Flood Insurance*

*Agency: Department of Homeland Security*
*Bureau:*



| | Results Achieved | ☑ Measures Adequate |
| | Results Not Demonstrated | New Measures Needed |

### Key Performance Measures
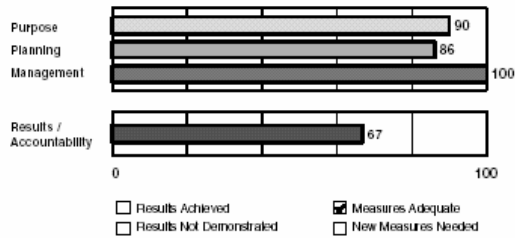
| Key Performance Measures | Year | Target | Actual |
|---|---|---|---|
| Long-term Measure: Estimated value of disaster and property loss avoided | 2002 | $1.000B | $1.102B |
| | 2003 | $1.200B | |
| | 2008 | $10B total | |
| | | | |
| Long-term Measure: Percentage of flood claims processed according to program standards (New measure) | 2004 | 90% | |
| | 2008 | 100% | |
| | | | |
| | | | |
| Annual Measure: The income to expense ratio of the flood insurance program | 2000 | | 112.4% |
| | 2001 | 114.0% | |
| | 2003 | 116.0% | |
| | 2004 | 117.0% | |

**Rating:** *Moderately Effective*

*Program Type: Direct Federal*

*Program Summary:*

The National Flood Insurance Program offers basic flood insurance coverage for homes and businesses in the United States.

The PART revealed that the program purpose and design, strategic planning, and program management are basically sound. The program receives some criticism concerning its low participation rate and the inclusion of some properties which are only a burden on the taxpayer. Currently, less than half of the eligible properties in identified flood plains participate in this program. In comparison, the participation rate for private wind and hurricane insurance is near 90 percent in at-risk areas. Additionally, FEMA is not currently targeting the proper properties, allowing repetitive loss properties to be insured under this program. Some modifications could improve program results. Examples include:
1. Phasing out repetitive loss properties.
2. Ending taxpayer subsidies for second homes and vacation properties.
These reforms depend on enactment of legislation, which Congress has previously declined to do.

In response to these findings, the Administration will develop outcome based performance measures. Additional program reforms are being deferred until establishment and incorporation of the program into the Department of Homeland Security.
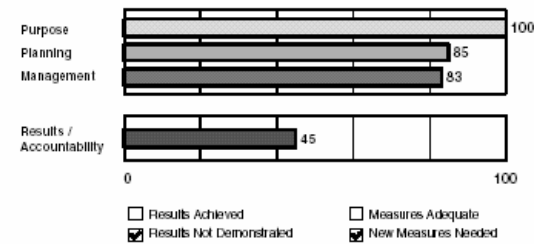
Note--Funding identified below is estimate of gross spending for this program. There are fees and premiums which offset the program costs.

### Program Funding Level (in millions of dollars)

| 2002 Actual | 2003 Estimate | 2004 Estimate |
|---|---|---|
| 943 | 1,527 | 1,551 |

149

**Program:** *Search and Rescue*

**Agency:** *Department of Homeland Security*
**Bureau:** *Coast Guard*

| | |
|---|---|
| Purpose | 100 |
| Planning | 85 |
| Management | 83 |
| Results / Accountability | 45 |

☐ Results Achieved  ☐ Measures Adequate
☑ Results Not Demonstrated  ☑ New Measures Needed

| Key Performance Measures | Year | Target | Actual |
|---|---|---|---|
| Long-term Measure: Measures under development | | | |
| | | | |
| | | | |
| | | | |
| Annual Measure: Percent of all mariners in imminent danger rescued | 1999 | | 87.5% |
| | 2000 | | 82.7% |
| | 2001 | 85% | 84.2% |
| | 2002 | 85% | |
| | | | |
| | | | |
| | | | |
| | | | |

**Rating:** *Results Not Demonstrated*

*Program Type: Direct Federal*
*Program Summary:*

The Search and Rescue (SAR) program saves people in distress in or on the water.

While the program is well-managed, it faces strategic planning and performance challenges.
1. The program has a clear purpose and is well-managed.
2. While the Coast Guard has a useful performance measure to assess its annual progress, more work is needed to develop long-term goals for the program.
3. Coast Guard has reached or very nearly reached its ambitious annual goal of saving 85% of all mariners in imminent danger. However, the program did not receive high scores in "Results" because it lacks long-term performance measures and because an audit found readiness problems.
4. A recent audit by the Inspector General identified "serious staffing, training, and equipment problems in the SAR program." These findings are supported by a few high-profile SAR cases that have been mishandled in the past decade.

To address these findings:
1. The Budget will provide funding in 2004 for two Coast Guard initiatives to improve SAR station readiness. These initiatives, totaling $20 million, will enable the Coast Guard to increase SAR staffing. With additional personnel available at small boat stations and command centers, individuals' workweeks will be reduced to 68 hours and watch standards will be capped at 12 hours per shift. These changes will ensure that SAR operations are not hampered by personnel who are overworked and exhausted.
2. Coast Guard will work to develop useful long-term performance measures for the SAR program.

*Program Funding Level (in millions of dollars)*

| 2002 Actual | 2003 Estimate | 2004 Estimate |
|---|---|---|
| 640 | 777 | 830 |

150

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